Annual Report 2007

Year ended March 31, 2007

OMRON

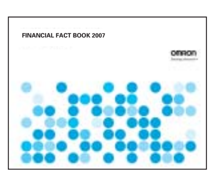
Sensing tomorrow™

PROFILE

Omron's core sensing & control technology is creating new value through accurate readings of needed information in all circumstances. Through this, Omron provides products and services that support safety, security, environment and health in a variety of areas including industry, society, and in lifestyles.

Contents

Sustainability Report 2007
For information on Omron's sustainability initiatives, please refer to "Sustainability Report 2007", a report on social and environmental activities to our stakeholders, including employees, clients and customers, shareholders, and regional communities.
http://www.omron.com/corporate/csr/



Financial Fact Book 2007
For financial data from the past 10 years, please refer to "Fact Book 2007".
http://www.omron.com/ir/ir_factbook.html

A Caution Concerning Forward-Looking Statements
Statements in this annual report with respect to Omron's plans, strategies and benefits, as well as other statements that are not historical facts, are forward-looking statements involving risks and uncertainties. Important factors that could cause actual results to differ materially from such statements include, but are not limited to, general economic conditions in Omron's markets, which are primarily Japan, North America, Europe, Asia-Pacific and China; demand for, and competitive pricing pressure on, Omron's products and services in the marketplace; Omron's ability to continue to win acceptance for its products and services in these highly competitive markets; and movements of currency exchange rates.

Definition of Terms
All references to "Omron" and "the Company" herein are to Omron Corporation and consolidated subsidiaries and affiliates.

A BETTER WORLD FOR ALL

PHILOSOPHY

THROUGH

SENSING & CONTROL

THE BEST MATCHING OF MACHINES TO PEOPLE

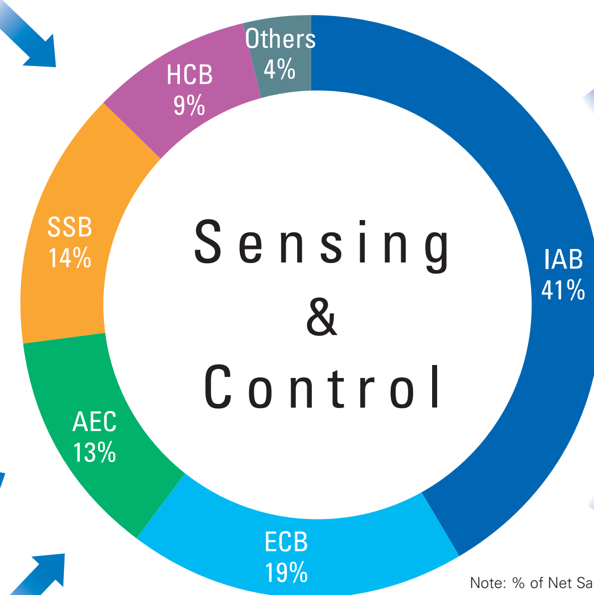
Sensing & Control Technology

In sensing & control, machines sense information just as humans do with their five senses (sight, hearing, smell, taste, and touch), and similarly control a process by handling the information with intuition, producing output in a convenient form. Not simply through humans and not simply through machines, through cooperation between human and machine Omron aims for the best matching of machines to people via its sensing & control technology.

- INDUSTRIAL AUTOMATION BUSINESS (IAB)
- ELECTRONIC COMPONENTS BUSINESS (ECB)
- AUTOMOTIVE ELECTRONIC COMPONENTS BUSINESS (AEC)
- SOCIAL SYSTEMS BUSINESS (SSB)
- HEALTHCARE BUSINESS (HCB)
- BUSINESS DEVELOPMENT GROUP AND OTHER BUSINESSES

OMRON

Sensing tomorrow™



Note: % of Net Sales

Net Sales

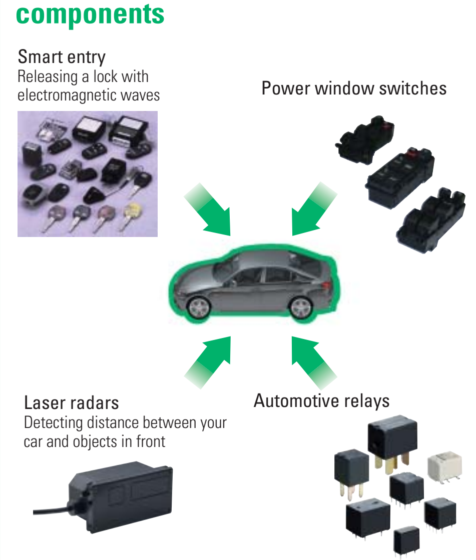
¥736.7 billion (FY2006)

- Industry
- Electronic components
- Automobiles
- Society
- Lifestyle

IAB Control Equipment for Factory Automation

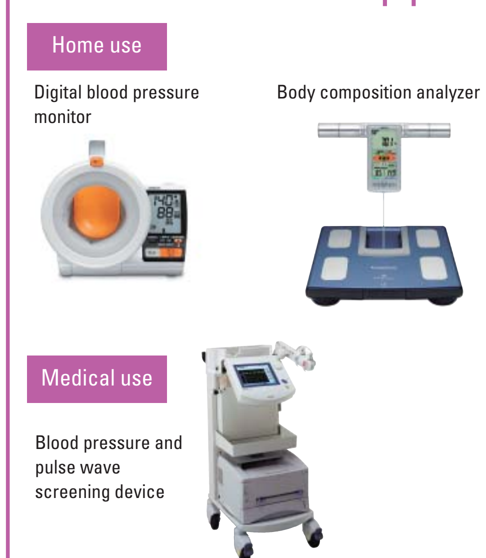
ECB Electronic components for home appliances, communications, mobile device, etc.

AEC Automotive electronic components



SSB Social systems

HCB Healthcare and medical equipment



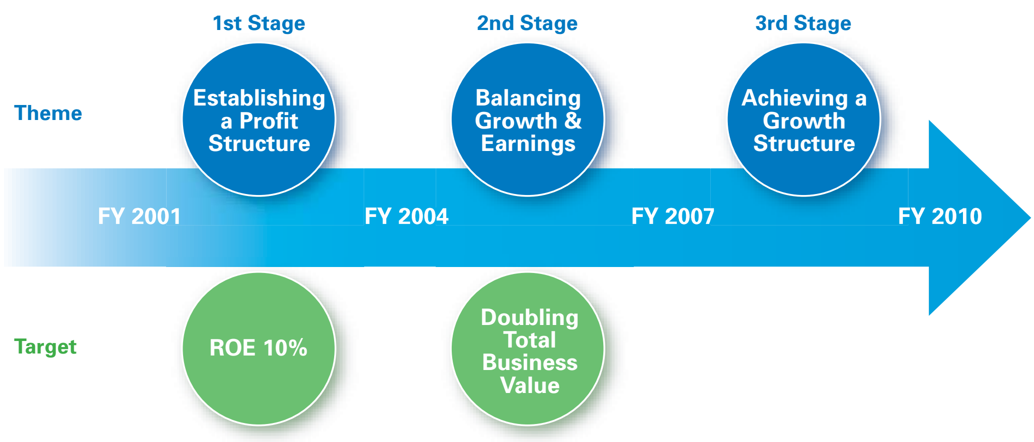
GRAND DESIGN 2010 (GD2010)

LONG-TERM MAXIMIZATION OF CORPORATE VALUE

In 2001, we established our long-term management plan "Grand Design 2010" (GD2010) which has as its main goal the long-term maximization of corporate value and indicates the direction to be pursued over the ten-year period from 2001. Furthermore, we divided GD2010 into three stages or medium-term management plans, each with its own theme and target, and are aiming for sustainable growth.

OMRON IS STEADILY PROGRESSING TOWARDS THE ESTABLISHMENT OF FOUNDATIONS FOR SUSTAINABLE GROWTH

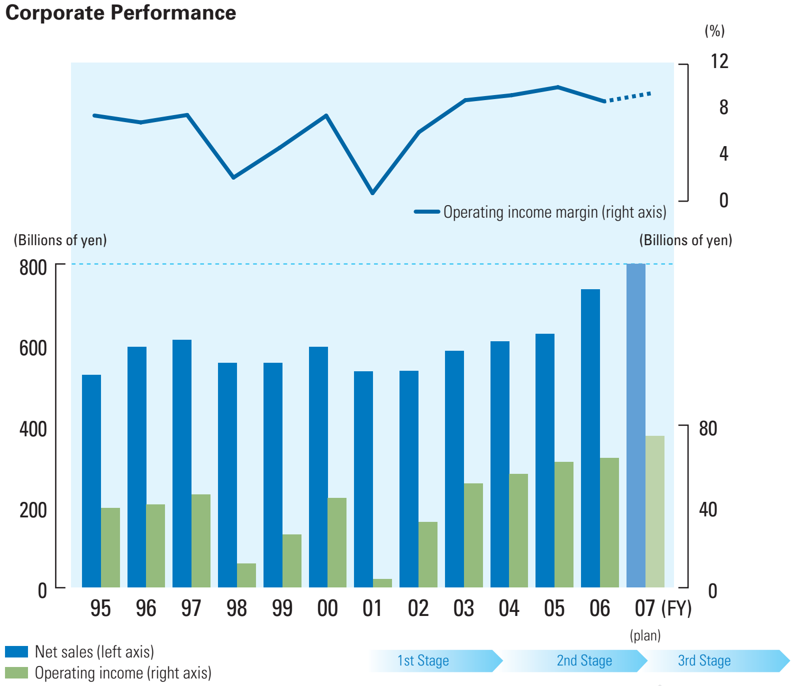
LONG-TERM MANAGEMENT PLAN GRAND DESIGN 2010 (GD2010)



2nd Stage Management Policies

In the 2nd Stage of GD2010, the 4 years of fiscal 2004 through fiscal 2007, we set a management target of doubling total corporate value over 2003 levels and set a theme of balancing growth and earnings. That is, based on policies of ensuring profitability through reforms in management structure and ensuring growth through expanding business segments, the more than 100 business units of the Omron Group are working to double total corporate value.

Corporate Performance



Increased Sales and Profits for the Fifth Consecutive Period

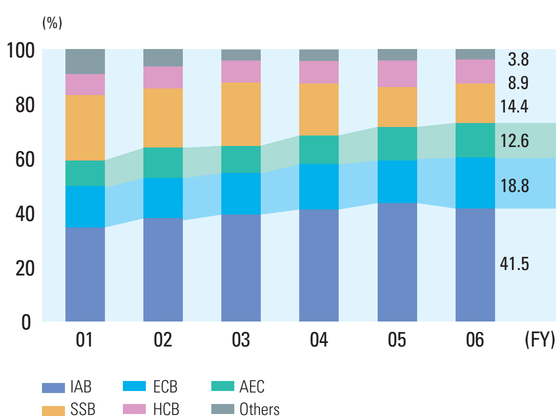
We have established sales of more than ¥750 billion and operating income of greater than ¥75 billion for fiscal 2007 as management indicators to achieve the last 2nd Stage goal of doubling total business value. In fiscal 2006 we actively invested in strengthening our profitability base. As a result, despite one-time increases in costs the fruits of restructuring began to be seen, and the fifth consecutive term of higher sales and profits was realized. Also, for fiscal 2007, the effects of M&A activities has brought sales of ¥800 billion within sight.

Restructuring of Business Segments

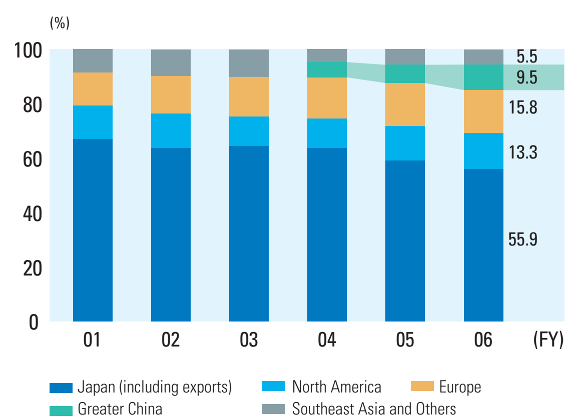
1) In order to establish ECB and AEC as pillars of business of the same scale as IAB, we are, above all, promoting the expansion of the two segments.

2) In Greater China—which stands out as a major consumer—we are focusing on expanding sales where major manufacturers are building plants.

Sales Breakdown by Segment



Sales Breakdown by Region

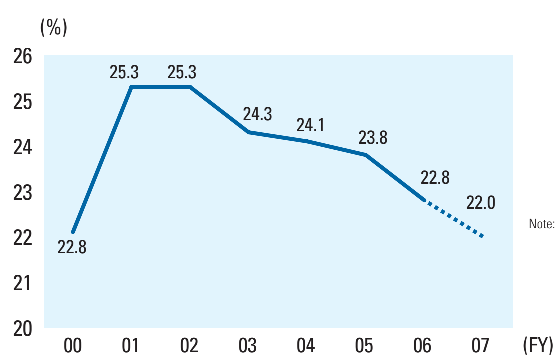


Note: Until FY03, Greater China was included in Southeast Asia and Others. Greater China includes China, Hong Kong and Taiwan.

Operational Restructuring

In order to build a robust earnings structure, we are continuously working on business efficiency, and are aiming to achieve an SG&A expense ratio of 22% by fiscal 2007.

SG&A Expense Ratio



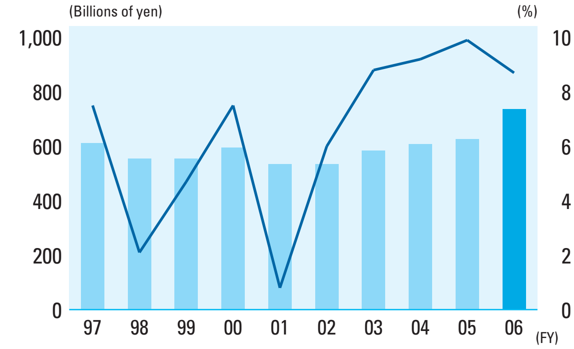
Note: Excluding extraordinary factors in the ATM business and the response to hazardous chemical substance regulations in FY04. Also excluding extraordinary factors in response to hazardous chemical substance regulations in FY05

TEN-YEAR FINANCIAL HIGHLIGHTS

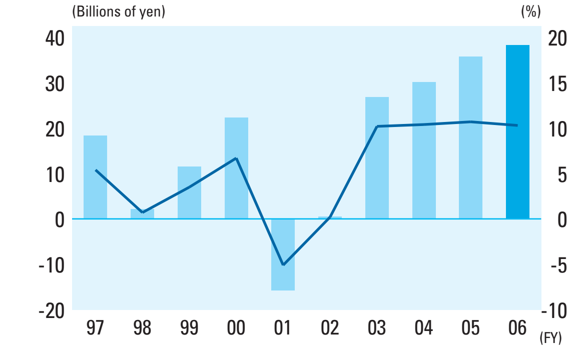
OMRON Corporation and Subsidiaries

	Millions of yen			
	FY2006	FY2005	FY2004	FY2003
Operating Results (for the year):				
Net sales	**¥ 736,651**	¥ 626,782	¥ 608,588	¥ 584,889
Gross profit	**284,199**	253,389	249,771	240,054
Selling, general and administrative expenses (excluding research and development expenses)	**168,135**	152,675	144,219	142,157
Research and development expenses	**52,028**	50,501	49,441	46,494
Operating income	**64,036**	62,128	56,111	51,403
EBITDA (note 3)	**97,959**	92,953	84,753	79,065
Net income (loss)	**38,280**	35,763	30,176	26,811
Cash Flows (for the year):				
Net cash provided by operating activities	**40,539**	51,699	61,076	80,687
Net cash used in investing activities	**(47,075)**	(43,020)	(36,050)	(34,484)
Free cash flow (note 4)	**(6,536)**	8,679	25,026	46,203
Net cash used in financing activities	**(4,697)**	(38,320)	(40,684)	(28,119)
Financial Position (at year-end):				
Total assets	**630,337**	589,061	585,429	592,273
Total interest-bearing liabilities	**21,813**	3,813	24,759	56,687
Total shareholders' equity	**382,822**	362,937	305,810	274,710
	Yen			
Per Share Data:				
Net income (basic)	**165.0**	151.1	126.5	110.7
Shareholders' equity	**1,660.7**	1,548.1	1,284.8	1,148.3
Cash dividends (note 5)	**34.0**	30.0	24.0	20.0
Ratios:				
Gross profit margin	**38.6%**	40.4%	41.0%	41.0%
Operating income margin	**8.7%**	9.9%	9.2%	8.8%
EBITDA margin	**13.3%**	14.8%	13.9%	13.5%
Return on shareholders' equity (ROE)	**10.3%**	10.7%	10.4%	10.2%
Ratio of shareholders' equity to total assets	**60.7%**	61.6%	52.2%	46.4%

Net Sales and Operating Income Margin



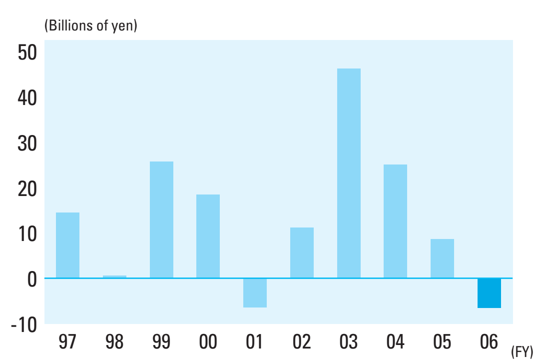
Net Income (Loss) and ROE



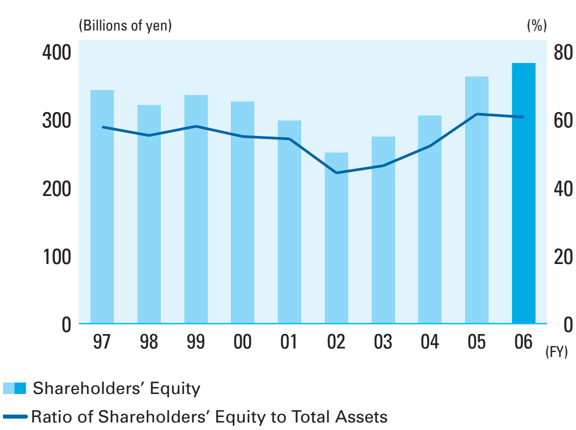
Notes: 1. The U.S. dollar amounts represent translations of Japanese yen at the approximate exchange rate on March 31, 2007, of ¥118=$1.
2. About the above-mentioned financial data, the profit or loss (excluding the balance of obligation settled) recognized on the transfer of employee pension fund liabilities in March 31, 2006 is not included in any of "cost of sales", "selling, general & administrative expenses" and "research and development expenses", to enable an easy comparison with previous fiscal years. It is assumed that this profit or loss is allocated in one lump sum.

FY2002	FY2001	FY2000	FY1999	FY1998	FY1997	Thousands of U.S. dollars (Note 1) FY2006
¥ 535,073	¥ 533,964	¥ 594,259	¥ 555,358	¥ 555,280	¥ 611,795	**$ 6,242,805**
207,660	180,535	218,065	196,447	190,966	224,350	**2,408,466**
135,112	134,907	131,203	133,662	136,734	138,404	**1,424,873**
40,235	41,407	42,513	36,605	42,383	39,914	**440,915**
32,313	4,221	44,349	26,180	11,849	46,032	**542,678**
61,989	37,790	76,566	57,625	43,245	77,161	**830,161**
511	(15,773)	22,297	11,561	2,174	18,300	**324,407**
41,854	33,687	50,796	59,926	29,583	32,086	**343,551**
(30,633)	(40,121)	(32,365)	(34,180)	(29,011)	(17,631)	**(398,941)**
11,221	(6,434)	18,431	25,746	572	14,455	**(55,390)**
(1,996)	(12,056)	(24,582)	(23,785)	21,629	(23,637)	**(39,805)**
567,399	549,366	593,144	579,489	580,586	593,129	**5,341,840**
71,260	58,711	67,213	69,472	86,723	54,544	**184,856**
251,610	298,234	325,958	336,062	321,258	343,066	**3,244,254**
						U.S. dollars (Note 1)
2.1	(63.5)	87.4	45.0	8.3	71.4	**1.40**
1,036.0	1,201.2	1,311.1	1,308.6	1,249.5	1,308.9	**14.07**
10.0	13.0	13.0	13.0	13.0	13.0	**0.29**
38.8%	33.8%	36.7%	35.4%	34.4%	36.7%	
6.0%	0.8%	7.5%	4.7%	2.1%	7.5%	
11.6%	7.1%	12.9%	10.4%	7.8%	12.6%	
0.2%	(5.1%)	6.7%	3.5%	0.7%	5.4%	
44.3%	54.3%	55.0%	58.0%	55.3%	57.8%	

Free Cash Flow



Shareholders' Equity and Ratio of Shareholders' Equity to Total Assets



3. EBITDA = Operating income + depreciation and amortization.
4. Free cash flow = Net cash provided by operating activities – net cash used in investing activities.
5. Cash dividends per share represent the amounts applicable to the respective year, including dividends to be paid after the end of the year.

MESSAGE FROM THE CHAIRMAN

The Omron Group responded flexibly to changing market conditions in fiscal 2006 and, in addition to reporting that we were able to steadily increase our corporate value, I want to thank all of our stakeholders who supported that growth. I would like to explain how the Omron Group will achieve sustainable growth in the future, the vision we must aim for, our mission to respond to the changing times, and the grounding force required for global management.

A Corporation Contributing to the 21st Century Earth that Incorporates the Dynamism of Asian Growth

In June 2007, we opened our first R&D center overseas, the Omron R&D Collaborative Innovation Center, in Shanghai, China. The center will be the second R&D base for our global operations together with the Keihanna Technology Innovation Center in Japan, and its purpose is to enhance the development of our core sensing and control technologies.

The Omron Group has positioned China as its most important area of focus in our 10 year long-term corporate vision, "Grand Design 2010" (GD2010), launched in fiscal 2001. In particular, in the 2nd Stage of GD2010, which began in fiscal 2004, we concentrated capital investment in China, which culminated in fiscal 2007 with the opening of the R&D center in Shanghai. The center establishes a functional coherence for our operations from R&D through manufacturing, sales and after-sales service in the Chinese market, which is currently a driver for the world economy.

Over the next two decades, we plan to incorporate the dynamism of the Asian market into our current U.S. and European operations. Ultimately, we aim to be recognized as a truly 21st century company that contributes to the healthy development of society on a global basis.

Safety, Security, Environment and Health are Global Social Needs

Safety, Security, environment and health are fundamental elements in the creation of sustainable society. This has been true in the already advanced countries, and remains equally essential in China, India, and the other rapidly emerging nations of Asia.

In many respects, this growth resembles Japan's passage through industrial development (see "SINIC Theory", on P83) on its way to becoming an economic power. Therefore, we believe the Japanese companies that are benefiting from the development of the Asian markets have an obligation as members of Asian society to use their accumulated technology and know-how to help solve the modern issues that arise as these countries seek sustainability. The Omron Group follows the management principle of "working for the benefit of society" and is creatively helping resolve problems faced by Asian society through our corporate DNA of "innovation driven by social needs*" and "challenging ourselves to always do better." This may be our most important corporate mission, and I believe this is also where we will find many business opportunities for Omron's future growth.

* Discover latent social needs, and be the first to provide products and services to build a better society

Further Growth through Governance with Corporate Principles as a Grounding Force

The values that society requires of a company change with the times, and now they are not only emphasizing economic values such as profitability and growth, but also social value. At the same time, social values vary between countries and regions. However, I believe that our corporate principles, which are characterized by our core value of working for the benefit of society set at the founding of the Omron Group and our corporate motto since 1959 of "At work for a better life, a better world for all," will be recognized as common values by stakeholders in all countries and regions.

In the future the Omron Group will continue enforcing its corporate principles and aim for diligent corporate governance powered by the grounding force of these principles. As we take up the challenge to creatively approach and resolve the new social needs in building sustainable society for the 21st century, we will implement corporate social responsibility (CSR) through our business as though our existence itself represents the fulfillment of CSR and aim to be a company chosen for its future promise.

July 2007

Yoshio Tateisi, Chairman of the BOD

TO OUR STAKEHOLDERS

MESSAGE FROM THE PRESIDENT

Looking to the future, we have restructured our business portfolio and reformed our operational structure to create a more robust profit structure. As a result, we achieved record profits for the fourth consecutive year in fiscal 2006. We are now devoting our efforts to achieving our 2nd Stage goal of operating income of ¥75 billion, and addressing remaining issues as we shift our focus to the 3rd Stage theme of GD2010: establishing a growth structure for the future of the Omron Group.

Structural Reforms Aimed at Both Growth and Profit

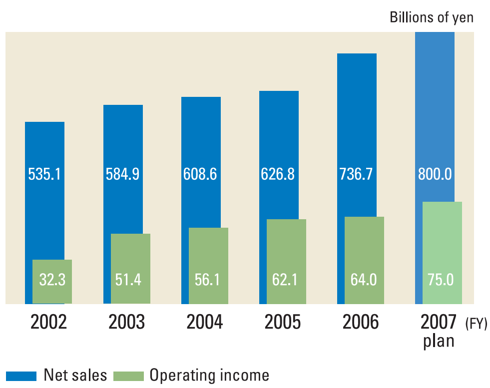
My role at the helm of Omron Group management is to steer our company on a course that will enable us to maximize the corporate value of the Group over the long term. In 2001, we launched the 10-year long-term corporate plan Grand Design 2010 (GD2010) with three distinct stages of development and targets. Our medium-term objective during the 2nd Stage (fiscal 2004-2007) is to double the Omron Group's total business value in terms of both growth and profit from the level in fiscal 2003. The specific targets for the 2nd stage are net sales of ¥750 billion and an operating income of ¥75 billion. To achieve our growth objectives, we have clearly identified target growth markets and fundamental technology that can give us competitive superiority. We aim to raise business value by 1) expanding sales in China and 2) creating value in new areas centered on core technologies as part of our business segment reforms to set the foundation of our competitive edge in the future. We are also establishing more efficient profit structures for our businesses as part of our operational structure reforms to realize more robust profit structures.

Fiscal 2006: The Fifth Consecutive Year of Sales Growth and Increased Profits, the Fourth Consecutive Year of Increased Dividends

These business policies enabled us to raise both sales and profit for a fifth consecutive year. Net sales for fiscal 2006 exceeded our initial forecast of ¥700 billion, reaching ¥736.7 billion (up 17.5% over the previous year) due in part to the contribution of large-scale M&As. Operating income reached ¥64 billion (up 3.1% over the previous year, or 27.5% excluding the previous year gains from the return of the ¥11.9 billion substitutional portion of the employee pension fund), also surpassing our initial projection, and net income was ¥38.2 billion (up 7.0% over the previous year). As a result, return on equity (ROE) rose to 10.3%, and we again fulfilled the company target of ROE of 10% or above.

In view of these solid results, we raised the annual dividend for the fourth consecutive year by ¥4, to ¥34 per share, in accordance with our basic policy for a payout ratio of around 20% of consolidated net income (see page 17 for Omron's capital policy).

Net Sales and Operating Income



Maximizing Corporate Value with a Long-term Vision

Although the outlook for the economic environment in fiscal 2007 holds unclear elements such as steep rises in the prices of raw materials, we anticipate further positive outcomes from structural reforms and contributions from M&A activities to date. We are targeting net sales of ¥800 billion (up 8.6% over the previous period) and operating income of ¥75 billion. Meeting these targets will raise consolidated earnings per share (EPS) to about ¥200 (net profit of ¥46 billion), which is roughly double the level of the ¥110 consolidated EPS in fiscal 2003.

We are also aware that if we fail to keep business and investment on an even keel by opting to pursue immediate gains that can have the potential to stunt our future growth, or if we shy away from promising challenges simply for the sake of cutting costs, we will fall behind the times and diminish as a company. With this in mind, we are aiming to strike a balance between growth and earnings in the 2nd Stage of GD2010.

Looking back at the three-year period of the 2nd Stage, the Group has become even stronger than we could have anticipated. In terms of earnings, productivity in IAB has improved significantly following the reorganization of our global production and development bases. SSB has also achieved positive outcomes through cost cutting measures based on selection and concentration. ECB also has achieved growth through expansion of the liquid crystal backlight business, and HCB has improved its position by making a full-fledged entry into the supply market for medical institutions and private medical practices. Despite concerns over steep rises in raw material prices, AEC also lifted its productivity through management efforts and returned to profitability in the second half of fiscal 2006. While disparities in profitability and growth exist among the business units, our management strategy of maintaining an effective balance of growth and earnings is producing steady overall results for the Omron Group.

Fiscal 2007 will bring us another important step closer to our goal. However, the 2nd stage of the GD2010 is just one part of establishing a foundation on which to transform the Omron Group into a sustainable value creation company. I am committed to doing my utmost to guide the company toward maximizing corporate value over the long term based on GD2010 by promoting optimal distribution of limited management resources (people, goods, money).

The Omron Group strives to meet the tasks cut out for us, and I would like to ask all of you to give even greater support and cooperation in the days ahead.

July 2007

Hisao Sakuta, President and CEO

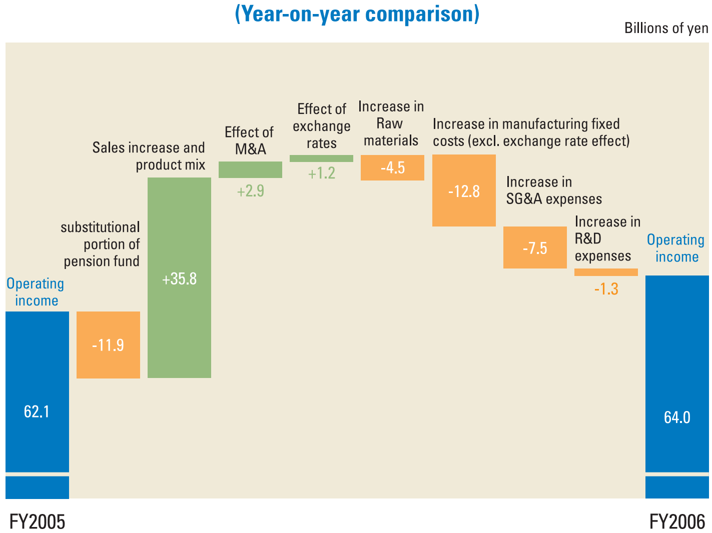
Q.1 In fiscal 2006 the Omron Group again set a new record high in profits. What do you consider to be the main factors in achieving this?

A. If you look at consolidated net sales for fiscal 2006, you will see that our core IAB operation achieved double-digit growth and that SSB also demonstrated noteworthy expansion. In addition, our M&A activities and the positive effects of yen exchange rates were factors contributing to favorable performance in fiscal 2006, and overall we were able to achieve year-on-year growth of 17.5% in net sales to ¥736.7 billion. At the same time, consolidated operating income rose 3.1% over the previous year to ¥64 billion. While the growth in operating income looks low in comparison with growth in net sales, this is because the operating income for fiscal 2005 included gains of ¥11.9 billion resulting from the return of the substitutional portion of the employee pension fund, an anomaly of that period. If we exclude the effects of these gains, the actual increase in operating income rises to 27.5%.

In terms of growth in consolidated operating income, on the positive side there was an increase in net sales and an improvement in the product mix, as well as the effects of M&As and the depreciation of the yen. At the same time, there were also negative factors working against us, namely steep rises in the cost of raw materials such as silver and copper, increases in manufacturing fixed costs, and an increase in selling, general and administrative expenses. Research and development expenses also rose during the period. The effects of M&As during the fiscal year under review were for the most part derived from the acquisition of Pioneer Precision Machinery Corporation (consolidated as of August 2006), a multi-light source LCD backlight manufacturer, and STI (consolidated as of September 2006), a leading North American safety equipment manufacturer.

Contributing to the increase in net sales and the improvement in the product mix were IAB, which increased its sales in Europe and the United States, and SSB, which benefited from demand for IC cards by railway companies upgrading station services to accommodate wider use of electronic tickets. At HCB, there was also steady growth in sales of blood pressure monitors in Russia & Eastern Europe and Asia. On the other hand, while ECB did show an improvement in earnings, the sharp fall in the prices of large-size backlights, which has been a driving force in sales, had a severe impact on results, and unavoidably ECB's contribution to the product mix in terms of profitability deteriorated. In the latter half of the year, AEC began to show a dramatic recovery in performance but failed to return to the black for the full year. At ECB and AEC, the high component ratio of relay and switch products, which were directly affected by the negative effects of price rises in raw materials such as silver and copper, also put pressure on profits. In comparison with the previous year, prices of silver increased 60% and copper 80%, so an austere earnings environment persisted for the entire year. However, we managed to overcome the negative effects of the rises in raw material prices, absorb the non-recurrence of gains from the return of the substitutional portion of the employee pension of the previous year and secure an increase in profits. On the whole, fiscal 2006 was a solid year.

Breakdown of Changes in Operating Income (FY2006)
(Year-on-year comparison)



Q.2 For the past three years, AEC has remained in the red. Could you please comment on conditions at AEC at present and what you are planning for future measures to rebuild the segment?

A. In the automobile industry the development of new vehicles has been centered on the themes of safety and the environment, and the number of electronic devices used in vehicles is increasing. Following this trend, the introduction of AEC products in new vehicles is also increasing. As a result, net sales for AEC in fiscal 2006 rose significantly to ¥93.3 billion (up 20.3% over the previous year). Despite a rapid recovery in operating income during the second half of the fiscal year, operating income for the full year finished in the red with a deficit of ¥1.2 billion (the first half was ¥2 billion in the red, the second half was ¥0.8 billion in the black).

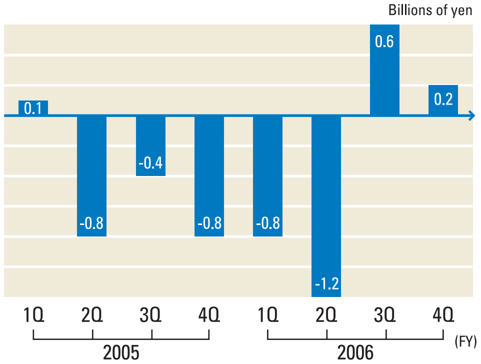
There were two main factors inhibiting performance at AEC. One was the squeeze on profits caused by surges in raw material prices such as silver and copper, and the other was the delay in improvement in production efficiency at production bases in North America in both the previous year and the first half of fiscal 2006. In North America, orders have been increasing over the past year, but production plants were unable to cope with increases in production volume and were unable to fulfill their supply quotas in fiscal 2006. Consequently, production plants in Japan had to cover their shortfall, and the products then had to be air freighted. This abnormal situation not only resulted in unnecessary transport costs and production costs but also resulted in productivity at North American plants falling below projections and a significant rise in fixed production expenses. Added to these was the negative effect of the appreciation of the Canadian dollar on results.

To address this situation, AEC put in place emergency measures to improve earnings. Specifically, we reviewed product values and the possibilities of changing over to alternative materials, based on value analysis (VA) and value engineering (VE), and we undertook efforts to revise prices of relays where profitability had been seriously impaired by the surges in silver and copper prices. Furthermore, as for the production framework, we also transferred production of some of our products from North America to Japan and China. In addition, we revised our logistics network infrastructure and shifted operations from local production to production in what we deemed to be optimal locations. As a result of these measures, the operating income of AEC improved dramatically in the second half of fiscal 2006 and returned to the black.

Furthermore, to broaden the application of relays to other areas, such as general consumer electronics and communications equipment, we launched the Relay Business Improvement Project: a company-wide initiative under my direct control that involved IAB as well as ECB. We have also been promoting improvement in productivity not only in North America but in other areas as well.

As a result, AEC's operating income is gradually heading in the direction of improvement in fiscal 2007, and we are expecting a profit of ¥1.4 billion for the full year. However, in contrast to AEC's sales target of ¥100 billion, the level of operating income is still far too low. I am determined to do everything within my power, in cooperation with the entire Omron Group and AEC, in order to improve income in a way that will result in lifting the operating income margin in excess of capital cost (about 6%).

AEC Performance
Quarterly Trend in Operating Income

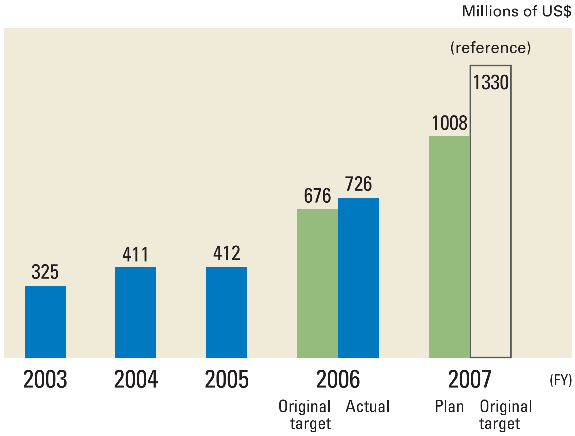


Q.3 Sales for Greater China are trailing behind initial projections noticeably. Can you please comment on the current situation there and your forecast for the future?

A. We at the Omron Group stated that we will lift sales in Greater China to US$1,330 million in fiscal 2007 and we undertook strategic investment accordingly. In fiscal 2006, net sales for Greater China including the contribution of ECB, which acquired Omron Precision Technology Co., Ltd. (formerly Pioneer Precision Machinery Corporation), increased about 1.8-fold to US$726 million from the previous fiscal year. This surpassed our initial projection of US$676 million for fiscal 2006, but is falling far short of our medium-term plan target. However, in our existing businesses at present, we believe that we can expect growth of about 30%, and we are still planning on sales of just over US$1,000 million for fiscal 2007.

Sales aren't growing as planned at IAB, which is positioned as our engine of growth. This is the main factor that is keeping us from achieving our sales plan in Greater China. IAB's business in Greater China consists largely of the component business, which is conducted through local distributors. We have been working on developing sales channels over the past several years and although we have been able to retain a number of sales distributors and sales staff above levels called for in our initial plan, the skill level of distributors and sales staff who provide support for distributors is still an issue that requires attention. On the other hand, skills which can be honed through experience are improving on a daily basis, and now we are beginning to see results from this improvement. Our customer base is expanding and we are deepening our business relations with them. Therefore, although we are trailing behind our initial sales plan by about one year, we believe that we can top US$1,000 million in sales during fiscal 2007 and we will be able to reach US$1,330 million in fiscal 2008.

Sales Growth in Greater China



Q.4 This year is the final year of the 2nd Stage of GD2010. In that light, can you please comment on anticipated results for fiscal 2007 and the basis of your expectations?

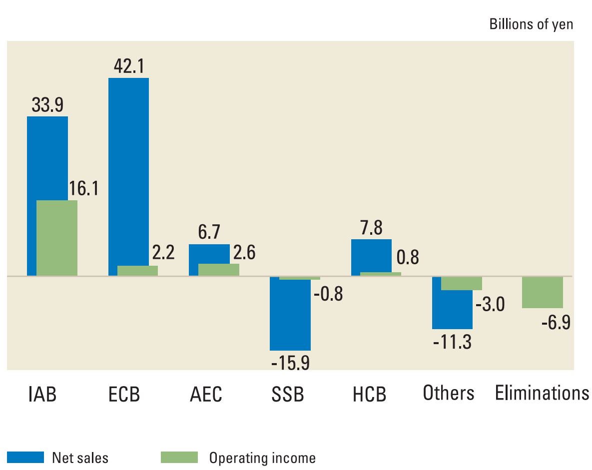
A. In fiscal 2007 we are anticipating net sales of ¥800 billion (up 8.6% over the previous year), operating income of ¥75 billion (up 17.1%), income before taxes of ¥72 billion (up 8.6%), and net income of ¥46 billion (up 20.2%), marking the sixth consecutive year of growth in sales and profits. On that basis we will be able to meet our initial targets for the 2nd Stage of GD2010.

Thanks to ongoing capital investment, we expect demand for products of Group businesses to continue growing, albeit modestly, both in Japan and overseas. This includes demand for factory automation control devices, electronic components for digital consumer products and automotive electronic devices to meet safety and environmental requirements.

In this environment, we expect a combined increase of ¥76 billion in net sales (up ¥63.3 billion year on year for the Group overall) for IAB, which acquired a safety equipment manufacturing company, and ECB, which acquired a manufacturer of small-size backlights. We can also expect growth in sales for HCB in blood pressure monitors in Europe and Asia as well as an increase in sales of lifestyle disease prevention devices for private medical practices, and we are anticipating growth of 10% or more over the previous fiscal year. In addition to growth in these businesses, we also anticipate steady growth for AEC with the increasing number of electronic devices being fitted in new model cars. On the other hand, we expect sales for SSB to contract by ¥15.9 billion due to the completion of investment associated with the installation of IC card equipment at stations of major railway companies. In other businesses, we are expecting a contraction of ¥11.3 billion in sales due to the transfer of our entertainment business to a newly established company in an arrangement where the management team of that business is comprised of the principal investors.

As for operating income (up ¥11 billion year on year for the Group overall), despite an environment where negative elements such as prevailing high prices for raw materials and the increasing severity of price competition are putting pressure on profits, productivity in China, which is essential to strengthening our earning power, is set to increase further. We believe that achieving overall operating income of ¥75 billion for the Omron Group is well within our reach due to a number of factors: 1) we expect an increase of ¥16.1 billion in operating income in IAB, where we have taken decisive action to increase sales and revamp our earnings structure, 2) we have achieved a turnaround in AEC, which, with the help of emergency profit improvement measures, will post a surplus for the full year in fiscal 2007, and 3) there has been further improvement in the operating income margin of SSB due to structural reforms in fixed expenses.

Forecasted Year on Year Change in Net Sales and Operating Income for Fiscal 2007, by Segment



Q.5 I understand that you are looking at a significant increase in operating income (up 33.1% year on year) in IAB as the main force driving growth in results for fiscal 2007, but can you give some specific details of the possibilities for achieving that?

A. In fiscal 2007, we are expecting total operating income of ¥97.4 billion (including inter-segment income of ¥22.4 billion) for all business segments and we anticipate that IAB will generate ¥64.6 billion of that amount. Therefore, it is no exaggeration to say that the IAB will be the leader in determining whether we will reach our consolidated operating income target of ¥75 billion for fiscal 2007.

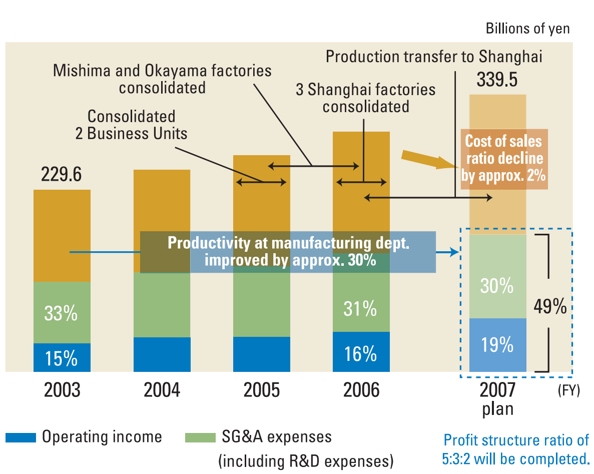
During the 2nd Stage of GD2010, our long-term management plan, IAB, which is the core business of the Omron Group, undertook decisive measures on a large scale, implementing sweeping structural reforms in its operations. Specifically, over the past three years we have consolidated three of our plants in China (Shanghai) into one plant. In Japan we also streamlined operations by consolidating our development and production operations in Mishima and Okayama into our plant at Kusatsu.

In addition, by transferring production of general-purpose products to China, we also expect to achieve a 30% improvement in productivity in that area in comparison with the start of the 2nd Stage of GD2010. These initiatives in streamlining and reform have significantly cut our manufacturing fixed costs. Furthermore, we were able to complete spending to accommodate RoHS requirements (restrictions of hazardous substances in electric and electronic devices) by the end of the previous fiscal year, and this will result in cost reduction from fiscal 2007 onwards.

As a result of IAB's efforts to increase sales since fiscal 2004, and the initiatives I just mentioned to control production and selling, general and administrative (SG&A) expenses, we expect to achieve for the most part (operating margin will be 19%) our commitment of establishing an earnings structure based on a ratio of 5:3:2, representing gross profit, SG&A expenses (including R&D expenses), and operating income respectively. This is, in fact, the most important IAB company theme of the 2nd Stage of GD2010.

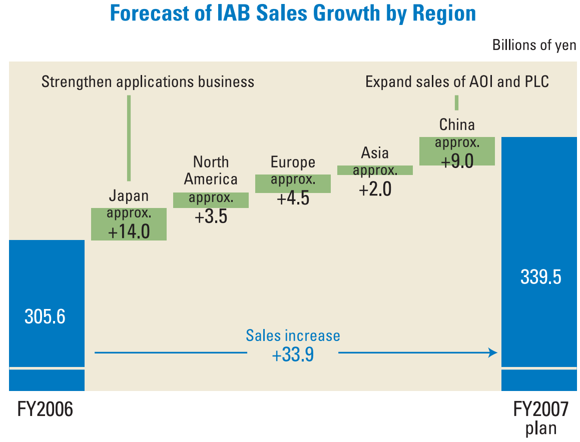
We plan to generate about half of the ¥16.1 billion increase in operating income expected in fiscal 2007 through structural reforms in fixed expenses, and the remaining half from an increase in volume. In sales for fiscal 2007, we expect a ¥34 billion increase year on year, largely in Japan and Greater China. At home in Japan, we will promote aggressive sales for resolving customer issues in areas such as quality, safety and the environment, and in those areas we will focus particular attention on the automotive, semiconductor, flat panel display and liquid crystal areas with a view to growing our applications business. In Greater China, on the other hand, we will concentrate on expanding our business operations in AOI (automated optical inspection) and PLC (programmable logic controllers) by reinforcing our sales framework, boosting productivity and launching new products.

Trends in the IAB Profit Structure



* Figures for the profit structure plan are based on management of IAB itself. The share of operating expenses is approximately 1 percentage point lower than figures released due to the way in which operating expenses for headquarters are allocated.

Forecast of IAB Sales Growth by Region



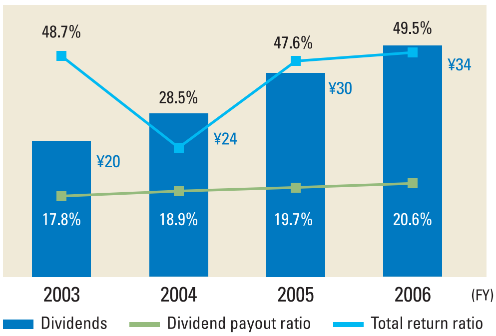
Q.6 Could you please explain your view on profit distribution?

A. Our company policy on profit distribution is that securing internal capital resources is necessary in order to maximize corporate value over the long term. This includes investments in R&D and capital investments. At the same time, I recognize that distributing profits every year to our shareholders in a stable, uninterrupted manner insofar as possible is an obligation we have to our shareholders. In particular, to live up to the expectations of our shareholders who hold the shares of our company over the long term, we are committed to providing long-term, stable profit distribution of a certain level even at times when our profits may fall.

In fiscal 2006, against its target payout ratio of about 20% of consolidated net income, we provided a dividend of ¥34 per share (dividend payout of 20.6%), which was ¥4 above the dividend of the previous year.

For annual dividends in fiscal 2007 and thereafter, Omron has clearly stated that it will aim to provide a minimum of 20% of consolidated net income as the payout ratio instead of the somewhat ambiguous standard of "about 20%". In addition to this, to enhance stable, uninterrupted profit distributions, we will also introduce from fiscal 2007 onwards indicators such as dividends on equity (DOE), which is return on equity (ROE) multiplied by the payout ratio. In specific terms, this means that Omron will strive to maintain a payout ratio of at least 20% and provide profit distributions with a near-term DOE target of 2%. Of course, we also intend to provide dividends to shareholders as much as possible from surpluses remaining after securing internal capital resources required for growth investment. In addition, we also have plans to provide return to shareholders flexibly through the repurchase of common shares using surplus funds retained over the long term. In fact, the total return ratio, which is share buybacks and dividends combined, has been maintained at the high level of close to 50% for the past few years.

Returns to Shareholders



*Total return ratio = (Dividends + Share buybacks) / Net income

Q.7 Can you please tell us about Omron's capital policy?

A. In fiscal 2006, accounts receivable and inventories increased slightly as a result of M&A activities and the effect of currency exchange rates. This combined with efforts to increase capital efficiency on a global basis and reduce cash has brought the equity ratio to the current level of 60.7%, demonstrating our sound financial position. Effectively debt-free, we consider our capital cost to be in the vicinity of 6 percent, so we believe that there is capacity for us to increase our interest-bearing liabilities a little. On the other hand, if we increase interest-bearing liabilities recklessly, we risk lowering our credit rating, so we have no intention to borrow more than necessary.

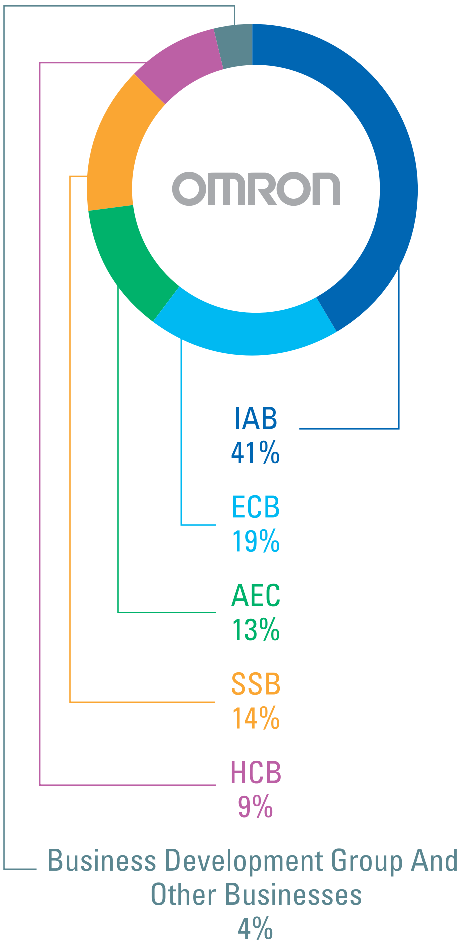
In terms of our financial strategy for the immediate future, we intend to maintain the basic position of borrowing the amount we need at the time we need it. Although interest rates are edging upwards, we do not feel that there is a need for us to secure funds in advance. However, we are considering using borrowings from the perspective of financial leverage effects*. If we increase borrowings and lower our capital cost to the 5 percentile level, and maintain at least an A credit rating, we estimate that we will be able to borrow about ¥150 billion. Furthermore, we would like to undertake investment for future growth through M&A by using our treasury stock effectively. During fiscal 2007, as investment necessary for maximizing our corporate value over the long term, we plan to spend ¥56.5 billion on R&D expenses (up ¥4.5 billion year on year) and ¥45 billion on capital expenditure (up ¥600 million year on year), which is in excess of depreciation (¥35 billion).

* Financial leverage effects
If there is an earnings opportunity for increasing profit above debt costs (interest expenses), increasing financial leverage (total capital ÷ shareholders' equity), in other words utilizing borrowing, will have the effect of raising ROE.

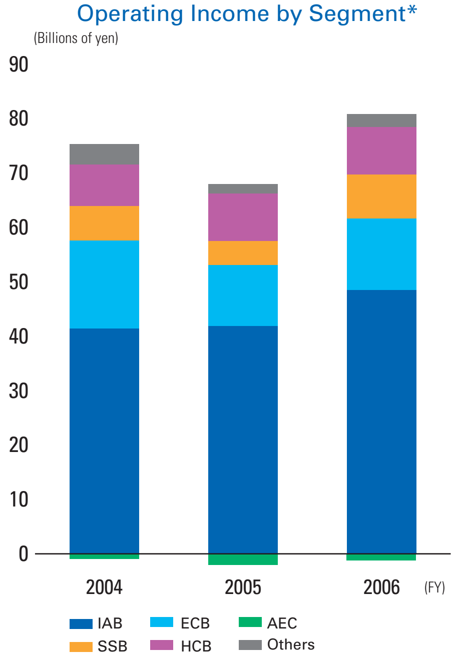
OMRON AT A GLANCE

% of Net Sales / Operating Income by Segment

% of Net Sales



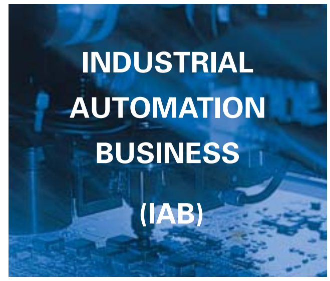
Operating Income by Segment*

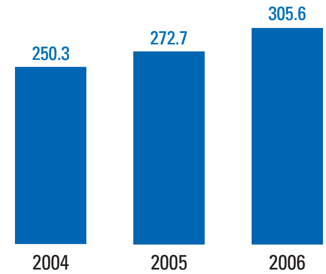


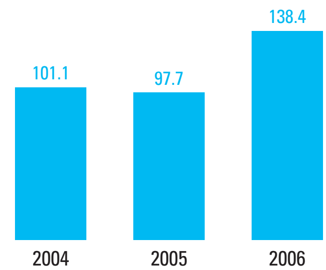
Segment

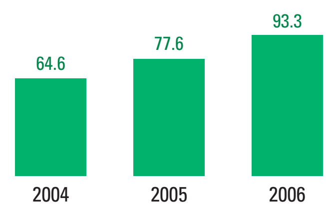
Net Sales (Billions of yen)

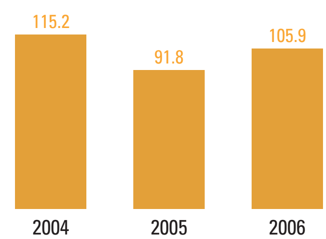
(FY)

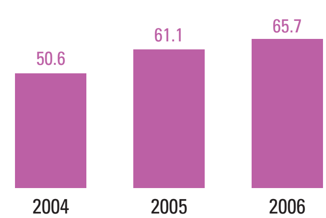




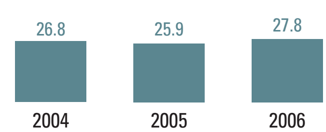




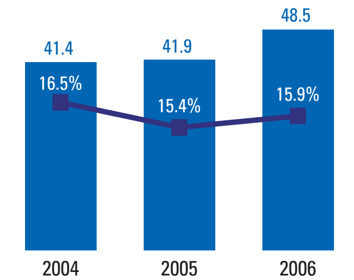




BUSINESS DEVELOPMENT GROUP AND OTHER BUSINESSES



Operating Income* (Billions of yen) Operating Income Margin (%) (FY)	Overview and Market Position	Main Products and Services



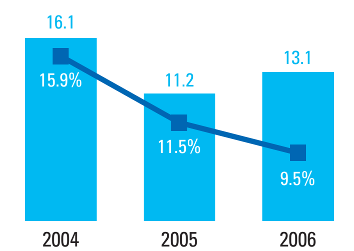
Top market share for high-precision sensors in Japan

IAB is Japan's largest* manufacturer of control devices for factory automation (FA), and contributes to production in all manner of industries. Recently, IAB has not just provided equipment and systems, but is focusing on its solutions business for management themes such as quality improvement, work safety, and environmental friendliness-needs which are rapidly increasing at production facilities.

* Market share data obtained from the Nippon Electric Control Equipment Industries Association (NECA). Domestic market share is roughly 40%.

Manufacturing and sales of control systems and equipment for factory automation and production machinery

Sensing devices (photoelectric/proximity sensors, automated optical inspection systems, etc.), control devices (programmable logic controllers, temperature controllers, relays, timers, etc.), safety devices (safety sensors, safety switches, etc.)

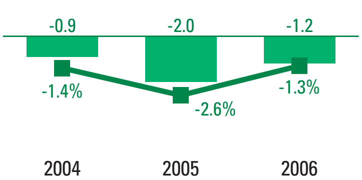


Aiming to be top in the LCD backlight business

ECB manufactures and sells semiconductor sensors using micromachining technology and electronic components for amusement equipment, among other things, centering on relays, switches and connectors for home electronics, communications, and industrial equipment. In the business for liquid crystal backlights used in displays for mobile phones and in flat panel displays, ECB holds top global share for small-sized backlights, and has product offerings in all size ranges, from small to mid and large-sized backlights.

Manufacturing and sales of electronic components for home appliances, communications, mobile phones, amusement equipment, office automation equipment

Relays, switches, connectors, sensors, micro lens arrays, customized ICs, IC coins, optical communications devices, etc.

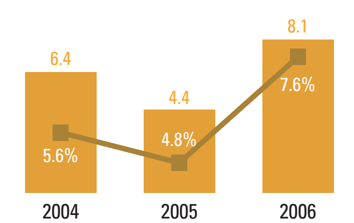


Focusing on development of leading-edge products

AEC manufactures and sells a variety of components for automobiles such as controllers, sensors, switches and relays. In the rapidly advancing market for car electronics, it is focusing on the development of next-generation, key components for which safety, security, and environment are keywords, and is already producing leading-edge products such as laser radars (sensors for measuring the distance between cars).

Manufacturing and sales of automotive electronic components

Automotive relays, sensors, laser radars, power window switches, keyless entry systems, electronic control units, etc.



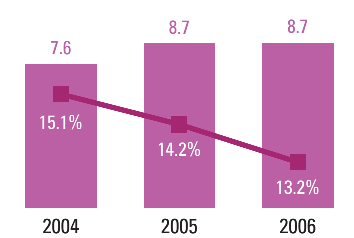
Top market share for automated gates at stations in Japan

SSB provides a variety of systems which support social infrastructure, including systems for railways such as automated ticket gates and automated ticket machines, and traffic control systems for road networks. Recently, as social needs related to safety and security have been rising quickly, the security business has been focusing on the provision of solutions related to room access control and information access control.

* The ATM business was transferred to Hitachi-Omron Terminal Solutions, Corp. (Hitachi: 55%, Omron: 45%) on October 1, 2004.

Manufacturing and sales of equipment/modules, and provision of solutions and services for the fields of public transportation and traffic/road management

Public transportation : passenger gates, ticket vending machines, fare adjustment machines, etc. traffic/road management, traffic signal controllers, road management systems, etc.

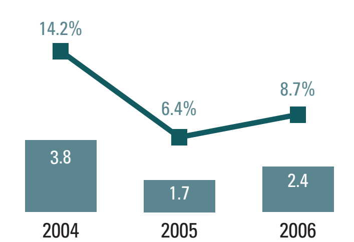


Top market share for digital home blood pressure monitors in Japan

HCB provides a wide range of health care equipment including blood pressure monitors, digital thermometers and pedometers. In particular, Omron's digital home blood pressure monitors, which are a core product, boast 50% of the domestic market (according to a survey by a private research institute), and Omron is becoming the top brand in the global market. Furthermore, along with developing new equipment for medical institutions, through our health care equipment we are focusing on home medical care, which ties together home care and professional medical care.

Manufacturing and sales of home and professional healthcare equipment

Digital blood pressure monitors, digital thermometers, nebulizers, pedometers, body composition analyzers (body-fat analyzers), electronic pulse massagers, vital signs monitors, inpatient blood pressure monitoring devices, exhaled gas monitors, central monitors, vascular screening devices, etc.



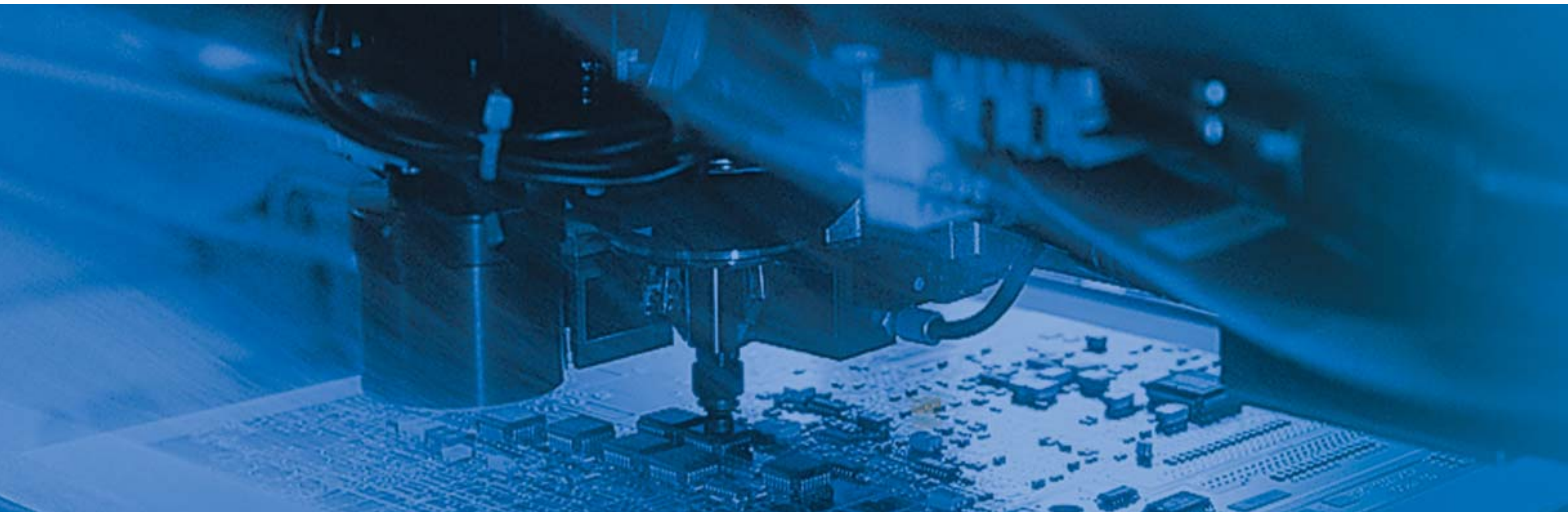
Exploration and development of new businesses

Other businesses include new businesses being explored and developed by the Business Development Group and other businesses not part of the above-described segments. Currently, the Business Development Group is carrying out part of the Omron Group's growth strategy, and is focusing in particular on the RFID business and the service business for the remote monitoring of electricity.

Business Development
Development/Promotion of new businesses for achieving the Group growth strategy

Personal computer peripherals (modems, broadband routers, back-up power supplies, etc.), wireless sensing business (remote monitoring equipment, etc.), RFID business (IC tags, reader/writers, antennae, etc.)

* Operating income indicates income including internal income prior to the deduction of amounts such as inter-segment transactions and headquarters expenses that are not apportionable.



INDUSTRIAL AUTOMATION BUSINESS (IAB)

Manufacturing and sales of control systems for factory automation

Fumio Tateisi, Executive Vice President

Company President, Industrial Automation Company

As the driving force behind structural reform of the Omron Group's overall profits, IAB has been aiming for an operating income margin of 20% for fiscal 2007 and is currently devoting efforts to the final stages of realizing that goal. At the same time, we are focusing our attention on the application business as an area that will contribute to promoting product quality, safety and environmental friendliness, aspects of management that companies are intent on improving at the production site.

MARKET ENVIRONMENT AND KEY STRATEGY

Strengthening Abilities in Aggressive Sales in the AOI (automated optical inspection) system and the Safety Components Businesses

In fiscal 2007 the business environment in the domestic market for IAB is expected to continue to be strong on capital expenditure in the automobile industry as well as the semiconductor and electronic components industry. In the overseas market, steady capital expenditure is also anticipated in the United States and Europe, and further growth is expected in emerging markets such as India and Russia.

On the other hand, the trend to shift production bases overseas will accelerate as companies the world over strive to produce goods at lower cost and with greater production efficiency. Irrespective of the technical expertise of local staff, achieving quality of the same level at every production base at all times is essential if companies hope to increase their corporate competitiveness. At the same time, securing the safety of inexperienced local workers and putting in place production systems that are underpinned by principles affirming a commitment to global environmental protection have also become important corporate social responsibilities. In that respect, IAB has been developing its application business to respond to management issues in product quality, safety and environmental friendliness through technology that we have cultivated over the years at the actual production site, and we will establish a sound revenue base by further developing ways in which we can serve our customers in this area.

BUSINESS RESULTS AND FISCAL 2007 OUTLOOK

Completion of the 5:3:2 Earnings Structure and Outlook for a Significant Increase in Profit

IAB finished fiscal 2006 with net sales of ¥305.6 billion (up 12.1% year on year), and operating income of ¥48.5 billion (up 15.7%). In Japan the safety components and application businesses steadily progressed. Semiconductor and digital home electronics-related capital expenditure also remained strong, driving up sales for our mainstay FA (factory automation) control devices. In overseas markets, sales of control devices for oil and gas-related businesses in the United States were strong. Moreover, a leading US manufacturer of safety devices, Scientific Technologies Incorporated (current OSTI), which became a consolidated subsidiary of IAB in September 2006, also made a contribution to sales (approximately ¥7.0 billion). In Europe, sales of inverters and servo motors also showed growth.

In fiscal 2007 we are expecting net sales of ¥339.5 billion (up 11.1% over the current year), and operating income of ¥64.6 billion (up 33.1%). As our final goal in the current medium-term business plan, we at IAB made a commitment to establishing an earnings structure based on a ratio of 5:3:2* for gross profit; selling, general and administrative SG&A expenses (including R&D expenses); and operating income respectively, and we

IAB RESULTS AND PLANS

Billions of yen

Fiscal Year	2007 Plan	**2006**	YoY	2005	2004	2003
Net sales*	339.5	**305.6**	112.1%	272.7	250.3	229.6
Domestic	154.5	**140.8**	103.4%	136.2	130.2	117.1
Overseas	185.0	**164.8**	120.7%	136.5	120.1	112.5
North America	38.3	**34.8**	137.2%	25.4	20.3	19.6
Europe	85.8	**81.3**	116.8%	69.6	65.6	60.7
Asia	16.2	**14.0**	110.1%	12.7	10.4	13.6
China	38.0	**28.8**	120.2%	24.0	19.5	18.4
Direct exports	6.6	**5.8**	120.3%	4.8	4.3	0.3
Operating income*	64.6	**48.5**	115.7%	41.9	41.4	34.2
Operating income margin*	19.0%	**15.9%**	+0.5% pt.	15.4%	16.5%	14.9%
R&D expenses	21.0	**18.1**	98.1%	18.5	16.7	14.5
Depreciation and amortization*		**11.2**	109.9%	10.2	7.6	10.0
Capital expenditures	13.0	**13.7**	137.2%	10.0	8.8	7.3

* Projections for FY2007 are based on exchange rates of ¥115/US$ and ¥150/Euro.
* The sales figures given indicate sales to external customers and exclude inter-segment transactions. Operating income indicates income including internal income prior to the deduction of amounts such as inter-segment transactions and headquarters expenses that are not apportionable.
* Projections for depreciation and amortization are not publically released.

Portable Multilogger ZR-RX Series

An electronic device for storing data of measurement results recorded by various sensors, it can be connected to a PC and convert data into graphs or send it via e-mail in abnormal situations. In addition to contributing to ISO compatibility measures and traceability, the device, at one third of the market price for devices of this type price, represents the highest cost-performance in the market.

Safety Laser Scanner OS3101

Utilizing reflected laser light, this is a non-contact sensor for detecting the presence of a human body. A system that achieves both safety and productivity, it has two possible settings: one for shutting down machines and one for monitoring and warning of the proximity of workers to machines.

High Speed Accuracy Measurement Devices

Enabling high-speed and accurate measurement of the line width and overlap of TFT substrates in the LCD array fabrication process, these devices warn of and prevent the incidence of defective products. With proprietary technology and algorithms for image processing, this device achieves high-accuracy measurement of 0.1 nanometer repeatable accuracy and measuring speed of 1 item per second.

are giving top priority to finalizing that structure during the current fiscal year. At the same time, we have strengthened our sales framework for China, which is about one year behind schedule in terms of sales, and we plan to widen and deepen our sales activities by expanding our market of AOI instruments. As a result, we expect to boost growth in sales in the Chinese market by 30% or more (See P14 for details).

* Figures for the profit structure plan are based on management of IAB itself. The share of operating expenses is approximately 1 percentage point lower than figures released due to the way in which operating expenses for headquarters are allocated.

MEASURES FOR ACCELERATING GROWTH

Completion of the BRICs Market Sales Network with IAB's Full-fledged Entry into the Russian Market

In October 2006 Omron established OEE-RUS in Moscow, Russia as a sales company under the control of IAB and commenced operations. This marked the first full-fledged entry of a Japanese maker of FA control devices in the Russian market. With the establishment of OEE-RUS, we have put in place a framework where we can look after the needs of our customers quickly provide them with close support. We already have sales companies in Brazil, India, and China, so the establishment and operation of the new sales company for control devices in Russia marks the completion of our sales network in the BRICs markets which are expected to grow further. During fiscal 2007 we expect sales amounting to 20 million euros (approximately ¥2.7 billion) and by 2010 we plan to increase sales to 50 million euros, which represents an approximate five-fold increase in sales from the fiscal 2005.

Expanding the Scope of Business through Laser Fine Processing Technology

In June 2007 Omron acquired a 95% stake from principal shareholders in Laser Front Technologies, Inc. (LFT), an independent developer and manufacturer of laser fine processing devices, spun off from NEC Corp., and made it a consolidated subsidiary under the name Omron Laser Front Co., Ltd. With the integration of LFT's laser processing business and IAB's testing and measuring business units, IAB will be able to provide total quality solutions across all production processes where progress in fine processing is accelerating at a rapid pace. Moreover, using LFT's technical capabilities in areas such as liquid crystals, semiconductors, and electronic components, and IAB's full advantage of the merits of having a broad customer base that encompasses all manufacturing industries worldwide, and we plan to develop our operational base further (see the special feature on P33).

ELECTRONIC COMPONENTS BUSINESS (ECB)

Manufacture and sale of electronic components for consumer appliances, mobile devices, telecommunications and industrial equipment, and amusement devices

Soichi Yukawa, Senior Managing Officer
Company President, Electronic Components Company

At ECB we are aggressively moving into new growth domains in efforts to expand and extend the reach of our business. We are now doing this by offering innovative products that make the most of new technologies in areas such as liquid crystal backlights, input devices, and face recognition sensing to enhance the performance of mobile telephones and digital devices, which are rapidly growing industries.

MARKET ENVIRONMENT AND KEY STRATEGY

Increasing Profitability and Promoting the Development of New Business Areas

In fiscal 2007 we expect to see further growth in the electronic components market for digital consumer appliances and mobile devices. This growth will be driven largely by replacement sales and the growing popularity of products like flat screen TVs and mobile telephones featuring more electronic components accompanying technical innovation. Electronic components for industrial use can also look forward to a year of sound performance, with the help of robust capital investment plans by companies. However, intensifying competition on a global scale is putting further downward pressure on prices. In the backlight business for liquid crystal displays in particular, the selling prices for liquid crystal displays both for TVs and mobile devices are falling at a rapid pace. Meanwhile, the manufacturing costs of our mainstay relay products are being pushed up significantly by costs for raw materials due to soaring conditions in the silver and copper markets. As a measure to boost earnings in this challenging environment, particularly in small-size backlights for mobile devices where there is strong pressure to lower costs, we integrated our product strategies for point light source lights for the low end of the market and multiple light source lights for the high end of the market, which had previously been promoted on two separate tracks, and we have been devoting efforts to improving efficiency in development costs and enhancing our product power. We have also established a Business Strengthening Project which we are deploying across the ECB company as we promote sweeping measures to improve productivity.

As a new initiative, we are presently strengthening and expanding our line of semiconductor-related products through our new company Omron Semiconductors Co., Ltd., a wholly-owned subsidiary established at the end of 2006. Semiconductor business assets transferred from Seiko Epson Corp. form the foundation of this subsidiary, and in fiscal 2007 we plan sales of approximately ¥3 billion (see the special feature on P33). Moreover, in our optical fiber communications components business, which is beginning to show promising signs of growth, we will promote the global development of the fiber-to-the-home (FTTH) market.

BUSINESS RESULTS AND OUTLOOK FOR FISCAL 2007

Outlook for Double-digit Growth in Sales and Profit despite Concerns over Pressure on Earnings

In fiscal 2006, ECB recorded net sales of ¥138.4 billion (up 41.6% year on year), and operating income of ¥13.1 billion (up 16.9%). In the domestic market, demand for semiconductor and equipment related products is moving at a favorable pace. In addition, the round of inventory adjustments for digital consumer electronics which was underway during the second half of the previous year has come to an end, and our mainstay products, such as switches and relays for printed substrates as well as connectors, made steady progress. Overseas

ECB RESULTS AND PLANS

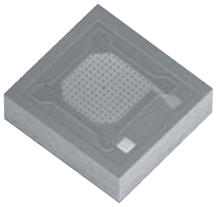
Billions of yen

Fiscal Year	2007 Plan	**2006**	YoY	2005	2004	2003
Net sales*	180.5	**138.4**	141.6%	97.7	101.1	89.0
Domestic	75.5	**58.8**	130.5%	45.0	51.8	47.5
Overseas	105.0	**79.6**	151.1%	52.7	49.3	41.5
North America	12.2	**11.0**	110.9%	9.9	9.5	10.5
Europe	12.6	**12.0**	96.2%	12.5	12.0	10.4
Asia	9.3	**8.6**	136.5%	6.3	5.6	5.0
China	61.2	**35.7**	245.4%	14.5	11.6	9.1
Direct exports	9.7	**12.4**	130.8%	9.5	10.7	6.6
Operating income*	15.3	**13.1**	116.9%	11.2	16.1	14.6
Operating income margin*	8.5%	**9.5%**	(2.0% pt.)	11.5%	15.9%	16.4%
R&D expenses	10.0	**8.1**	103.5%	7.8	7.9	6.7
Depreciation and amortization*		**9.0**	108.0%	8.4	5.8	5.9
Capital expenditures	15.0	**12.8**	181.4%	7.1	9.1	7.1

* Projections for FY2007 are based on exchange rates of ¥115/US$ and ¥150/Euro.
* The sales figures given indicate sales to external customers and exclude inter-segment transactions. Operating income indicates income including internal income prior to the deduction of amounts such as inter-segment transactions and headquarters expenses that are not apportionable.
* Projections for depreciation and amortization are not publically released.

MEMS Microphone Chip

Measuring only 1.2 x 1.3 x 0.4mm, a super miniature microphone chip developed using the latest MEMS* technology and is among the smallest microphone chips in the world.



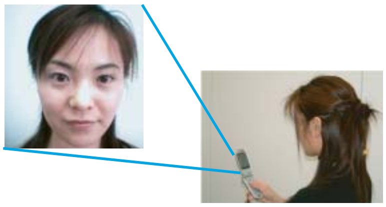
* MEMS (Micro Electro Mechanical System)
Using semiconductor processes, production technology for precise structures and devices.

Combination Jog Switch

A customized jog device that contributes significantly in the area of design, the switch enables the fabrication of more compact and flatter mobile devices.

OKAO Vision Facial Image Sensing

Software with a range of functions such as exposure correction in cameras, brightness correction in photo printing, and personal identify verification of the owners of mobile phones, OKAO recognizes with high accuracy facial images and can estimate age and determine sex.



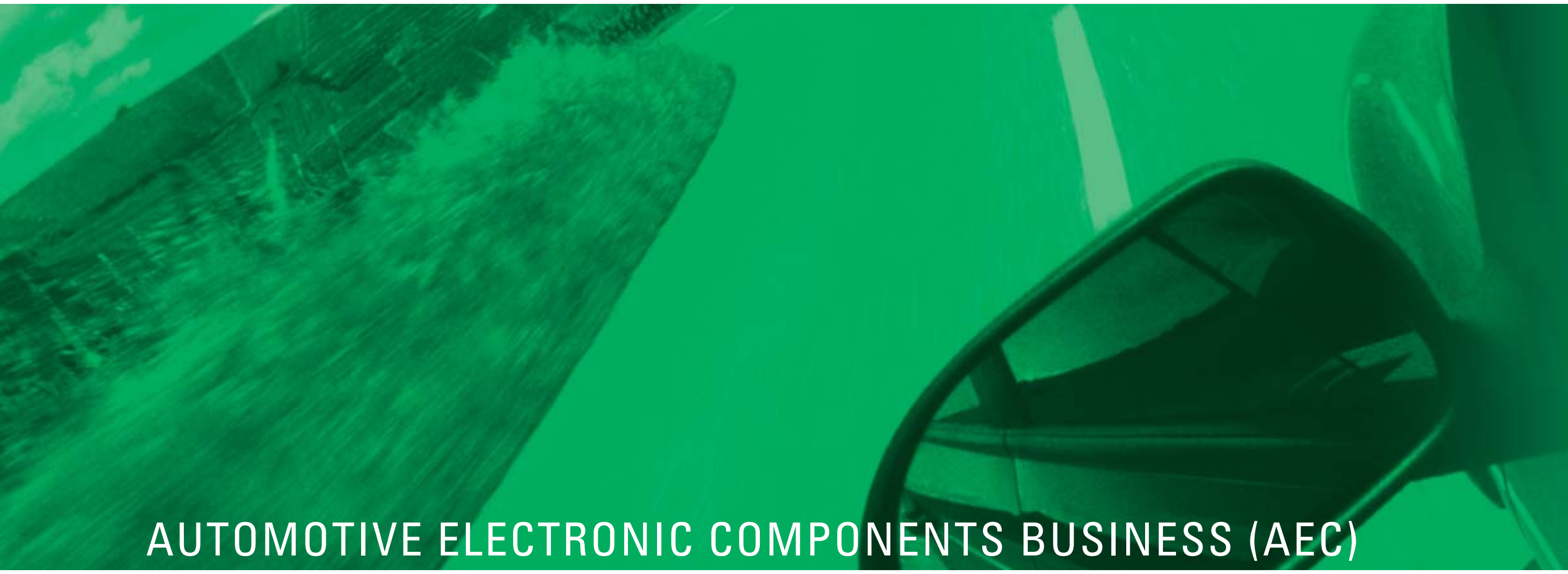
in the Chinese market, one of our priority areas, we are capturing demand for products for consumer electronics and mobile devices and we increased our sales significantly. In addition, the backlight business of Pioneer Precision Machinery Corporation (currently Omron Precision Technology Co., Ltd., hereafter "OPT"), which became a consolidated subsidiary in August 2006, also made contributions to sales (approximately ¥26 billion, for eight months). Also, the optic communications business of NHK Spring Co., Ltd., was transferred to Omron in November 2006, and we have made efforts to beef up that business (see the special feature on P35).

In fiscal 2007 we are expecting net sales of ¥180.5 billion (up 30.5% over the current period) and an operating income of ¥15.3 billion (up 16.8%). Raw material prices such as copper and silver remain high and will continue to place pressure on earnings, but we expect the demand environment to remain favorable. In terms of anticipated performance for specific products, we expect an increase in demand for flexible printed circuit connectors for mobile devices, combination jog switches, and hinges. In addition, we anticipate an increase in demand for relays for communications equipment in Europe and the United States. Furthermore, OPT will contribute to earnings for the full year for small to medium-size backlights, and we can also expect a rise in demand for large-size backlights as the popularity of large flat-screen TVs accelerates.

MEASURES FOR ACCELERATING GROWTH

Strengthening Existing Areas and the Backlight Business through Expansion of Our Facilities in China

At ECB we are making plans to put in place a cost structure that will enable us to stand up to strong competition inside and outside China. At the same time, we are currently undertaking initiatives to strengthen our existing business (relays, switches, and connectors) in China and to boost our production capacity in backlights so that we can remain in close contact with major local manufacturers to respond to their requests promptly. As part of this initiative, we have already started construction on the third phase of our production subsidiary OMZ, which was established as a core base for our existing business areas in June 2006, and we plan to establish a framework for accommodating a double-digit increase in demand by 2010. In the backlight business, following on from the start of operations of a new large-scale liquid crystal backlight plant in Changshu, Jiangsu Province in December 2006, we commenced operations in April 2007 at a second plant of an existing production subsidiary for small-size liquid crystal backlights with a monthly production capacity of 8,000,000 units, in the province.



AUTOMOTIVE ELECTRONIC COMPONENTS BUSINESS (AEC)

Manufacture and sale of electronic components for automobiles

Yoshinori Suzuki, Managing Officer
Company President, Automotive Electronic Components Company

As automobiles make greater use of electronic components and become more sophisticated, the Automotive Electronic Components Company (AEC) is increasing sales steadily under the principle of meeting society's need for more secure, safe and environmentally friendly products. With regard to the challenge of increasing profitability, positive results are being seen gradually in tandem with a fundamental reform of our cost structure. Our goal is to expand our business while maintaining a balance between growth and profits.

MARKET ENVIRONMENT AND KEY STRATEGY

Promoting Our High Value-Added Module Business

In 2006, Japan's automobile production reached the world's top spot, surpassing domestic output in the United States for the first time in 13 years since 1993. Even though Japan's domestic automobile market is reaching maturity, production increased in 2006 mainly as a result of the growing popularity of Japan's fuel-efficient automobiles worldwide against the backdrop of a surge in gasoline prices, triggering a rapid increase in production of vehicles for export. Automobile production is forecast to continue growing steadily on a global basis, driven by the demand in Asia which is enjoying remarkable economic growth. Japan's automobile manufacturers are responding by moving aggressively to build factories in emerging countries, focusing particularly on China, prioritizing on localized production and procurement as well as enhanced cost competitiveness. At the same time, intensifying competition to develop a new generation of automobiles based on the themes of environmentally friendliness, improved safety and comfort has set the stage for car electronics demand to expand. AEC expects the above trend will continue in the automobile industry for the time being. We are taking advantage of the demand for car electronic components driven by increased awareness for automobile safety and environmental conservation by developing our business for tire pressure monitoring systems and other high-performance component modules, while operating our factories in China to their full potential to meet local procurement needs. Nevertheless, profitability has become an increasingly significant challenge due to downward pressure on electronic component prices and surges in raw material costs caused by soaring silver and copper market prices.

BUSINESS RESULTS AND OUTLOOK FOR FISCAL 2007

Profitability Improvements Will Put Fiscal 2007 into the Black

In fiscal 2006, AEC recorded net sales of ¥93.3 billion (up 20.3% year on year) and an operating loss of ¥1.2 billion. Despite the small increase in domestic automobile production, expanded use of AEC products in new automobile models overseas enabled sales to exceed expectations made at the beginning of the fiscal year. Particularly noteworthy was North America, where our new products such as wireless control equipment and power window switches enjoyed higher sales, even though the auto sales performance of our main customers was disappointing. Also, our manufacturing subsidiary in China, which began full operation in January 2006, made an enormous contribution to AEC's total sales growth. Earnings, however, were another matter. Although value analysis/value engineering-based cost reductions, the relocation of some component production and other emergency measures designed to improve profitability did help earnings recover in the second

AEC RESULTS AND PLANS

Billions of yen

Fiscal Year	2007 Plan	**2006**	YoY	2005	2004	2003
Net sales*	100.0	**93.3**	120.3%	77.6	64.6	58.8
Domestic	25.5	**26.1**	95.7%	27.2	26.0	24.8
Overseas	74.5	**67.2**	133.5%	50.4	38.6	34.0
North America	41.9	**37.9**	131.5%	28.8	21.0	20.9
Europe	12.8	**9.8**	157.9%	6.2	5.4	4.0
Asia	17.3	**16.2**	106.8%	15.1	11.9	8.8
China	2.4	**1.4**	1032.4%	0.1	0	0
Direct exports	0	**2.0**	—	0	0.3	0.3
Operating income*	1.4	**(1.2)**	—	(2.0)	(0.9)	1.0
Operating income margin*	1.4%	**—**	—	—	—	1.7%
R&D expenses	8.0	**7.1**	106.9%	6.7	6.4	5.2
Depreciation and amortization*		**8.1**	116.9%	7.0	3.3	3.0
Capital expenditures	6.0	**8.9**	79.6%	11.2	7.6	9.0

* Projections for FY2007 are based on exchange rates of ¥115/US$ and ¥150/Euro.
* The sales figures given indicate sales to external customers and exclude inter-segment transactions. Operating income indicates income including internal income prior to the deduction of amounts such as inter-segment transactions and headquarters expenses that are not apportionable.
* Projections for depreciation and amortization are not publically released.

Laser Radar

Measures the distance to the vehicle up ahead using a sensitive wide-field laser to contribute to realizing a driving control system. In addition to automobiles, bicycles and other objects are also detectable.

Smart Entry

Portable devices that transmit signals to automatically lock and unlock doors. It also features enhanced security functions for authorizing engine start-up, increasing the owner's peace of mind.

Electric Power Steering Controller

Compared with conventional oil pressurization, electric (motorized) power steering leads to improved fuel efficiency. Consequently, adoption of electric power steering controllers is rapidly expanding in new automobile models.

half, delayed productivity improvements at our North American manufacturing facility, higher raw material costs and other factors resulted in our third consecutive year of operating losses.

Our fiscal 2007 full-term forecast looks for net sales of ¥100 billion (up 7.2% year on year) and a return to the black with operating income of ¥1.4 billion. Despite potential risk factors such as poor performance among the Big Three in North America and slumping sales of new cars in the Japanese market, we anticipate a rise in automobile production in China, India, Central and Eastern Europe, South America and other new markets. Moreover, we expect stronger demand for such strategic products as laser radars, tire pressure monitoring systems and electric power steering controllers in light of expanded use of AEC products in new models scheduled to be launched by Japanese and non-Japanese automobile manufacturers. As for earnings prospects, AEC's own efforts to improve its manufacturing efficiency should of course help, as will working with IAB and ECB to share product platforms for relays and other products and lower R&D costs. In taking these steps we are determined to return to profitability. (See P13 for profitability recovery initiatives)

MEASURES FOR ACCELERATING GROWTH

Greater TPMS Marketing in North America in Response to New Safety Requirements

In 2000 inadequate tire pressure was pointed out to be one of the causes of a series of automobile tire failure accidents in the United States. As a result, automobile safety legislation, known as the TREAD Law*, was passed that requires all automobiles sold in the United States from September 2007 to be equipped with a TPMS** device to warn of inadequate tire pressure. TPMS is an alarm system that uses a wireless central processing unit with a high-frequency receiver to receive information from sensors attached to each of the four wheels of an automobile. The driver of an automobile receives data on tire pressure and internal temperature of the tire and will be alerted to an abnormal condition. AEC has already introduced products for TPMS systems using electronic frequency sensing technology to the North American market from fiscal 2005, based on which it will expand the business to promote installation in new model vehicles.

* TREAD Law: Transportation Recall Enhancement, Accountability and Document Act
** TPMS: Tire Pressure Monitoring System

SOCIAL SYSTEMS BUSINESS (SSB)

Providing solutions and services for realizing a secure, safe, and comfortable social environment

Yutaka Takigawa, Senior Managing Officer
Company President, Social Systems Solutions Business Company

In response to today's growing needs for security, safety and comfort, SSB is promoting expansion of new business areas by providing solutions that capitalize on the strengths of the Omron Group in services ranging from image sensing, IC card technology, and system construction to system maintenance and management.

MARKET ENVIRONMENT AND KEY STRATEGY

Stepping up Efforts to Address Society's Needs in Security, Safety, and Comfort

Amid calls for tighter measures to address increasing incidents and accidents in society and growing concern regarding corporate social responsibility and internal control in the wake of a series of corporate scandals, the demand for services to promote a safer, more secure society where people can live with greater peace of mind is set to increase. Likewise, as values in our society become increasingly diverse, new services to address individual needs in pursuit of more comfortable and convenient lifestyles have emerged one after another. In this environment of dramatic changes in social needs, SSB cannot expect significant further growth in its railway and roadway infrastructure services which have been its mainstay to date. The widespread use of IC cards has resulted in the need for fewer ticket vending machines, and government agencies are restraining investment in infrastructure. To counter this we will foster image sensing and IC technologies which we have developed to date by positioning them as core technologies that will serve as the mainstay of future growth in new business aimed at providing wide-ranging solutions centered on the themes of security, safety, comfort, and convenience. Also, we will continue efforts to transform our business management and change business processes in our existing businesses to strengthen our business structure.

BUSINESS RESULTS AND OUTLOOK FOR FISCAL 2007

Efforts to Secure Profit amid a Significant Decline in Sales

In fiscal 2006, SSB recorded net sales of ¥105.9 billion (up 15.4% year on year), and operating income of ¥8.1 billion (up 82.0%). In the railroad infrastructure business, new and replacement demand for automated passenger gates and automatic ticket vending machines was a major driving force in sales as the nationwide transition to IC card use by railways in Japan continued. Sales in the IC card mobile solutions business also grew accompanying an increase in demand for credit authorization terminals. Sales also increased in the new services segment due to demand for security against the leaking of information at production sites. On the other hand, sales in the roadway infrastructure business tapered considerably. Despite efforts to promote traffic-load measuring systems, there were few major contracts. In terms of profits, because of the decrease in fixed expenses and other costs due to the changeover in operations, increases in income exceeded the sales increases considerably.

During fiscal 2007, we expect net sales of ¥90 billion (down 15.0% year on year) and operating income of ¥7.3 billion (down 9.6%). The cycle of demand accompanying the introduction of IC cards for transport tickets will come to an end, and sales are expected to fall off considerably. On the other hand, we expect an increase in demand for new

SSB RESULTS AND PLANS

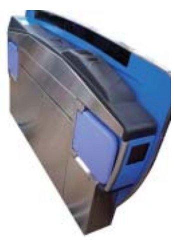
Billions of yen

Fiscal Year	2007 Plan	**2006**	YoY	2005	2004	2003
Net sales*	90.0	**105.9**	115.4%	91.8	115.2	136.0
Domestic	87.5	**101.8**	112.6%	90.5	108.6	126.4
Overseas	2.5	**4.1**	308.8%	1.3	6.6	9.6
North America	1.0	**5**	262.1%	0.2	0.2	0.2
Europe	0	**0**	—	0	0.4	0.9
Asia	0	**0**	—	0	0	—
China	0	**0**	—	0	0	0.4
Direct exports	1.5	**3.6**	317.9%	1.1	6.0	8.0
Operating income*	7.3	**8.1**	182.0%	4.4	6.4	10.4
Operating income margin*	8.1%	**7.6%**	+2.8% pt.	4.8%	5.6%	7.6%
R&D expenses	3.5	**5.1**	128.3%	3.9	5.3	7.6
Depreciation and amortization*		**3.3**	101.9%	3.2	6.1	6.6
Capital expenditures	1.8	**3.9**	91.6%	4.3	4.1	3.2

* Projections for FY2007 are based on exchange rates of ¥115/US$ and ¥150/Euro.
* The sales figures given indicate sales to external customers and exclude inter-segment transactions. Operating income indicates income including internal income prior to the deduction of amounts such as inter-segment transactions and headquarters expenses that are not apportionable.
* Projections for depreciation and amortization are not publically released.

Non-contact IC Specialized Automated Passenger Gates

The latest in automated passenger gates, antenna components attached to passenger gates instantly read information contained in a non-contact IC card held briefly over the machine and then allow passengers to pass through



Real-time Security Management Systems

Quantifying the continually changing risk of important assets in a building, this system contributes to security and safety through its ability to profile risks in real time by making risk "visible".

Next-generation Image Sensors

Sensors that can read differences in the movement of moving objects, separate images of overlapping objects on screen and perform precise tracking operations, these sensors are already used in the area of road traffic control systems. At present these sensors are being developed for application in security and safety solutions where they will be used for sensing the movement of people and objects.

business in the area of security for ID keys using facial recognition to control, for example, persons entering and leaving production sites. In this environment we will devote our efforts to further boosting the operating income margin and curbing the decrease in profits as sales taper off. To achieve this, we aim to reduce fixed expenses by continuing to change the way we manage operations and through the efficient management of SG&A and R&D expenses.

MEASURES FOR ACCELERATING GROWTH

Development of New Security Systems

In a three-company joint project with Takenaka Corporation, a major construction company, and Secure Planning Co., Ltd., a company specializing in anti-crime consulting, Omron developed a real-time security management system in November 2006. This system enables supervisors in buildings to identify risk in real time and implement appropriate, optimal risk measures by quantifying external and internal risks as they change by the moment based on information such as the location of important assets and the status of people in nearby areas obtained through cameras and sensors stationed in different locations in the building. SSB plans to expand this new system not only into plants and offices but also commercial facilities and schools to contribute to improving the safety and security of cities.

Launch of the ID Management Solutions Business

In March 2007, SSB integrated its security solutions business and IC card mobile solutions business, and launched its ID management solutions business. This business will contribute to increasing the value of cities and local areas by gathering and analyzing ID information of individual people and objects and providing solutions that will promote security & safety, and comfort & convenience. In fiscal 2007, we plan to devote efforts to improving security in cities and local areas through the provision of a range of security packages and improving the convenience of IC cards in areas such as micro-payment and point club services.

HEALTHCARE BUSINESS (HCB)

Manufacture and sale of medical devices for home and medical institutions.

Keiichiro Akahoshi

Representative Director and Chief Executive Officer, Omron Healthcare Co., Ltd.

Omron Healthcare Co., Ltd. (HCB) is enjoying steady growth amid a market that is expanding with rising global awareness of disease prevention. Our goal is to increase the size of our business through the promotion of our "Healthcare@Home" business, which aims at preventive treatment via home healthcare management and by sharing related data with medical institutions. Our goal is also to increase our business through our creation of health & medical equipment and services in a wide range of areas.

MARKET ENVIRONMENT AND KEY STRATEGY

Acceleration of Growth in Our Global Business as Awareness of Lifestyle-related Disease Prevention Rises

In Japan, for health-insured individuals aged 40-74 a specified array of physical examinations and health guidance will be made mandatory from fiscal 2008, with the prevention of lifestyle-related disease listed as one of the national measures to slash medical expenditures. As a result, the Japanese are becoming more aware of lifestyle-related disease prevention. As a research survey conducted by HCB in January 2007 shows, public awareness of metabolic syndrome* has skyrocketed in just one year, from 3% to 74%.

Given this background, we believe the Japan market for lifestyle-related disease prevention for medical institutions and individuals will see further growth. Also, because of the aging of populations, particularly in advanced countries, and rising living standards in emerging countries, the issue of lifestyle-related disease measures is being pushed to the national level in various countries, and global demand for health and medical equipment is expanding. In the face of these developments, based on the concept of Healthcare @ Home, HCB is creating useful products that can help prevent and treat lifestyle-related diseases while promoting a differentiation strategy underpinned by bio-information sensing technology and high-quality products.

* Metabolic syndrome: A condition characterized by obesity caused by fat collected on internal organs that can combine with such risk factors as high blood pressure, diabetes and lipid abnormality to easily trigger heart attacks and seizures.

BUSINESS RESULTS AND OUTLOOK FOR FISCAL 2007

Growth in Body Composition Analyzers in Japan and Blood Pressure Monitors Overseas

In fiscal 2006, HCB realized net sales of ¥65.7 billion (up 7.6% year on year) and operating income of ¥8.7 billion (up 0.4%). In the Japan market, in addition to greater personal health awareness triggered by increased public familiarity with metabolic syndrome, faster efforts by local governments and companies for meeting the obligation of a specified array of physical examinations and health guidance were favorable factors. In overseas markets, sales in Russia, Eastern Europe and China rose, led by products such as blood pressure monitors. On a global basis however, price competition is becoming more severe. As for our earnings performance, an approximately ¥0.7 billion investment in business restructuring in connection with our acquisition of Omron Colin (formerly Colin Medical Technology Corporation) was a temporary factor weighing down operating income.

In fiscal 2007, we forecast net sales of ¥73.5 billion (up 11.8% year on year) and operating income of ¥9.5 billion (up 9.4%). In particular, we look for continued strong growth in blood pressure monitor sales in China and Russia and body composition analyzer sales in Japan. At the same time, our equipment for medical institutions business is coming up against hospital management efficiency measures driven by

HCB RESULTS AND PLANS

Billions of yen

Fiscal Year	2007 Plan	2006	YoY	2005	2004	2003
Net sales*	73.5	**65.7**	107.6%	61.1	50.6	47.0
Domestic	37.5	**32.8**	108.2%	30.3	23.1	21.3
Overseas	36.0	**32.9**	107.0%	30.8	27.5	25.7
North America	14.3	**13.8**	89.8%	15.4	14.6	13.3
Europe	14.4	**13.1**	124.3%	10.6	8.9	8.3
Asia	2.0	**2.1**	127.0%	1.6	1.4	1.2
China	4.6	**3.6**	123.8%	2.9	2.6	2.7
Direct exports	0.7	**0.3**	106.8%	0.2	0.1	0.1
Operating income*	9.5	**8.7**	100.4%	8.7	7.6	7.2
Operating income margin*	12.9%	**13.2%**	(1.0% pt.)	14.2%	15.1%	15.3%
R&D expenses	4.5	**3.9**	115.5%	3.3	2.7	2.7
Depreciation and amortization*		**1.0**	93.5%	1.1	0.7	0.9
Capital expenditures	2.1	**1.5**	94.7%	1.6	2.1	1.9

* Projections for FY2007 are based on exchange rates of ¥115/US$ and ¥150/Euro.
* The sales figures given indicate sales to external customers and exclude inter-segment transactions. Operating income indicates income including internal income prior to the deduction of amounts such as inter-segment transactions and headquarters expenses that are not apportionable.
* Projections for depreciation and amortization are not publically released.

HEM-7020 Digital Blood Pressure Monitor

A blood pressure monitor with detection functions for early morning high blood pressure, which is difficult for Hospitals to detect. If weekly average readings for morning readings surpass the standard level of 135/85mmHg, a warning icon appears on display early morning high blood pressure.

HBF-361 Body Composition Analyzer

A body composition analyzer which measures visceral fat level and percentage of subcutaneous fat. Visceral fat level can be measured down to a unit of 0.5 and the result can be compared with the mean values for people in the same age group.

"Form" Blood Pressure and Pulse Wave Screening Device

A blood pressure and pulse detection device that can determine hardness of blood vessels as well as constriction and blockage. In just a few minutes, patients can quickly and easily have their blood vessels checked and thus receive efficient care for lifestyle-related diseases.

the need to contain medical costs and other unfavorable developments. However, it is expected that demand for equipment for lifestyle-related diseases such as vascular screening devices will continue to grow.

MEASURES FOR ACCELERATING GROWTH

Tie-up with GE Yokogawa in Bio-Information Monitoring

In April 2007, HCB formed an alliance with GE Yokogawa Medical Systems of the General Electric (GE) Group to acquire exclusive sales rights to GE's bio-information monitors* sold in the Japan market and to jointly develop products in the diagnostic, prevention and home medical fields. In the bio-information monitoring business, HCB has been involved in developing products for general hospital wards, while GE Yokogawa has provided high-performance products mainly for use in operating rooms and intensive care units. By tying up with GE Yokogawa, HCB is expanding its business through the creation of a sales structure that can supply a wide variety of products, from those for general hospital wards to operating rooms and intensive care units in need of high-performance equipment. Furthermore, going forward we will jointly develop products for markets worldwide with GE.

* Bio-information monitoring devices monitor a patient's condition by measuring and recording blood pressure, pulse and other forms of bio-information, as well as perform electrocardiograms.

New Factory in Vietnam

In response to rising global demand for home-use blood pressure monitors, HCB has invested about ¥0.6 billion in construction of a new factory in Vietnam, which will begin production in December 2007. At present, HCB has a roughly 50% global share of home-use blood pressure monitors, of which some 97% is manufactured at our factory in China. However, the aging of populations in advanced countries and the rising number of lifestyle-related disease patients in emerging countries suggest that demand for home-use blood pressure monitors is likely to experience further growth.

Remote Monitoring Equipment

A terminal for measuring energy consumption at business facilities that can be installed easily without requiring any wiring work with the adoption of a mobile communication network and specified low-power consumption radio transmission. The terminal can provide detailed measurement data at low cost.

BUSINESS DEVELOPMENT GROUP AND OTHER BUSINESSES RESULTS AND PLANS

Billions of yen

Fiscal Year	2007 Plan	**2006**	YoY	2005	2004	2003
Net sales*	16.5	**27.8**	106.9%	25.9	26.8	24.5
Domestic	16.0	**27.7**	107.8%	25.7	26.4	24.0
Overseas	0.5	**0.1**	35.0%	0.2	0.4	0.5
Operating income*	(0.6)	**2.4**	144.8%	1.7	3.8	3.8
Operating income margin*	—	**8.7%**	+2.3%pt.	6.4%	14.2%	15.5%
R&D expenses	9.5	**9.7**	95.1%	10.2	10.6	9.8
Depreciation and amortization*		**1.3**	125.4%	1.0	5.1	1.3
Capital expenditures	7.1	**3.6**	51.7%	7.0	5.8	9.5

* Projections for FY2007 are based on exchange rates of ¥115/US$ and ¥150/Euro.
* The sales figures given indicate sales to external customers and exclude inter-segment transactions. Operating income indicates income including internal income prior to the deduction of amounts such as inter-segment transactions and headquarters expenses that are not apportionable.
* Projections for depreciation and amortization are not publically released.

BUSINESS DEVELOPMENT GROUP AND OTHER BUSINESSES

Seeking Out and Fostering New Business Opportunities

Kazunobu Amemiya, Executive Officer

Senior General Manager, Business Development Group

The Business Development Group is contributing to the building of a basis for the Omron Group's growth by seeking out and fostering new business opportunities and also supporting technological development and product commercialization. In particular, we are focusing on the steadily-growing energy management and RFID businesses and stepping up efforts toward their further growth.

MARKET ENVIRONMENT AND KEY STRATEGY

Placing High Expectations on the RFID System and Energy Monitoring Businesses

We have our eyes on people's growing awareness of environmental protection and energy-saving. Accordingly, we are accelerating efforts to identify the potential of the commercialization of energy monitoring equipment and related services, which should not only support corporate clients' promotion of energy-saving efforts but also contribute to their cost-cutting efforts. We will also take advantage of the full-scale growth in demand for RFID*-related equipment to provide the global marketplace with products suitable for UHF and HF radio bands. Further, we will seek to create new businesses in the fields of safety, security, environment and health by making full use of the Omron Group's core competence.

* RFID: Radio Frequency Identification

BUSINESS RESULTS AND FISCAL 2007 OUTLOOK

Photo Sticker Machines, Energy Monitoring Business Turn in Strong Performance

In fiscal 2006, we saw net sales of ¥27.8 billion (up 6.9% year on year) and operating income of ¥2.4 billion (up 44.8%). Among existing businesses, the mainstay photo sticker machines performed strongly in the entertainment business, with the membership of the mobile site linked to these machines also growing smoothly. In the computer peripherals business, sales increased for uninterruptible power supply equipment. Among businesses with particular emphasis for growth, we started shipments of UHF-band RFID equipment to the Asian market, following the U.S. and Japanese markets, and sales of the newly launched energy monitoring business also grew steadily.

In fiscal 2007, however, despite an expected expansion of the RFID and energy monitoring businesses, we are forecasting an operating loss of ¥0.6 billion on net sales of ¥16.5 billion (down 40.5% year on year), as the sale of the entertainment business will lead to a corresponding decline in both sales and operating income and as we continue to invest in the search for new business opportunities.

MEASURES FOR ACCELERATING GROWTH

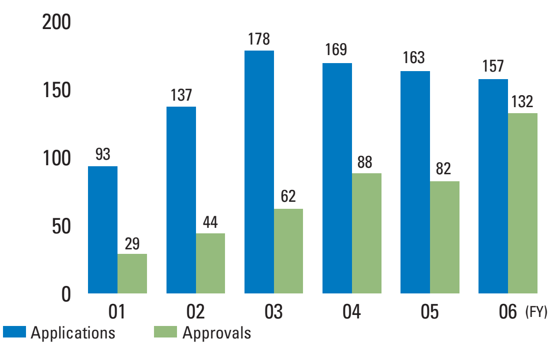
Expansion of the Energy Monitoring Business

We are putting extra effort into the energy monitoring business as a new business area. In this business, we utilize wireless technology to measure energy consumption of air-conditioning and other equipment, as well as room temperature and humidity, at manufacturing plants and distribution centers, process the measurement results into data useful in energy-saving efforts and feed these data into personal computers of client companies or into mobile phones of individuals. We launched the business in fiscal 2006 to provide both equipment and services to corporate clients who can expect both energy-saving and cost-cutting benefits. We will seek to double fiscal 2007 sales for the business from the fiscal 2006 level, and at the same time expand the scope of energy measurement and enhance the range of data services provided.

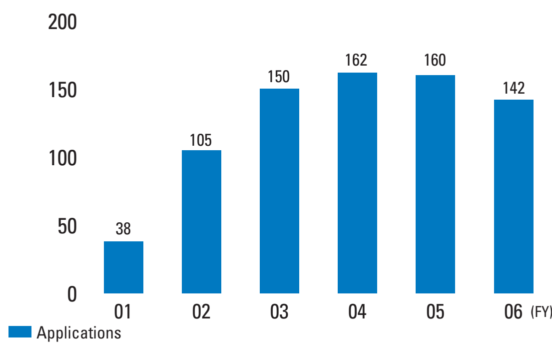
INTELLECTUAL PROPERTY STRATEGY

Intellectual property relating to technology and know-how is one of the Omron Group's most vital management resources for ensuring its sustainable growth. Acting as our mentor in technology, the Intellectual Property Center strategically links research and development with business and plays an essential role as a corporate concierge in converting technology into profit.

Patent Applications and Approvals in the United States



Patent Applications in China



Omron's Research and Development Scheme and Strategy for Intellectual Property

Focusing on sensing and control as core competencies, the Advance Device Laboratory and Sensing & Control Laboratory are responsible for the development of fundamental technology while the companies of the Omron Group engage in the development of applied technology and product development.

In the context of this research and development scheme, the Intellectual Property Center not only serves as an intermediary between business and technology but also contributes to the Group by creating the differentiating value that in the future will set Omron apart from other manufacturers in the industry. In specific terms, the Center comprehensively manages intellectual content from the development of fundamental technology to the development of applied technology and determines the direction of strategic development with a view to providing integrated support for both R&D and the business units. Through the Intellectual Property Center, we will predict and assess value in terms of the differentiating value that will be created in the future, synergies between technologies, and the accumulation of know-how, and we will promote the acquisition of rights for these projects, including business models from the research and development stages to their categorization as business models, aiming at maximization of corporate value.

Stepping up Patent Applications in the United States and China and Commencing Application Procedures in India

Since the Omron Group put in place its long-term management vision GD2010 in 2001, we have accelerated our business development globally and have increased our number of overseas patent applications. With our sights set on securing patents that will enhance our competitive edge internationally, we are stepping up efforts to acquire patents in the United States. Likewise, we have also been promoting the acquisition of patents in China, which is positioned as one of our priority strategic areas. In India too, despite existing inadequacies in legislation to protect intellectual property rights, we have not only investigated legal conditions but have actually begun to file applications for patents with a vision for the future.

Promoting the Acquisition of Patents on a Global Scale

To coincide with our plans as a global corporation, we will continue to promote collaborative innovation with local universities and local development in various regions of the world. In China, as we move ahead with research and development locally at the Omron Institute of Sensing & Control Technology (ORS) in Shanghai and at Omron (Shanghai) Co., Ltd., the need for us to apply for patents locally in accordance with the Chinese legal system is increasing in recent years. To facilitate the acquisition of patents, we have appointed specialist staff in both China and North America to provide local support at every stage from consultation concerning inventions to the filing of patent applications.

Intellectual Property and R&D-related Data

Fiscal Year	**2006**	2005	2004	2003	2002
Number of patents					
Applications	**1,300**	1,509	1,216	1,170	1,141
Approvals	**836**	705	676	580	543
Total patents	**5,206**	4,538	4,426	4,154	4,068
R&D expenses (Billions of yen)	**52.0**	50.5	49.4	46.5	40.2
R&D expenses ratio	**7.1%**	8.1%	8.1%	7.9%	7.5%
R&D staff (persons)	**1,630**	1,591	1,384	1,594	1,378

SPECIAL FEATURE:
GROWING STRONGER AND EXPANDING OMRON'S REACH THROUGH M&A

Because we live in a rapidly changing world, we at Omron understand that it is essential for us to always be seeking out promising fields, areas, and technologies for our growth, rapidly reorganize and recombine our business areas to accommodate selection and concentration of management resources, and grow our business. As a powerful means of executing this strategy, we carefully consider the possibilities of M&A and proceed accordingly. In this special feature, we present the strengthening and expanding of our businesses through M&A in six case studies explaining initiatives to create synergies with existing businesses and to break into new growth areas in the 2nd Stage of GD2010 from the perspective of long-term maximization of corporate value.

Case 1: Aiming to be the global No. 1 company in safety equipment for the production site.

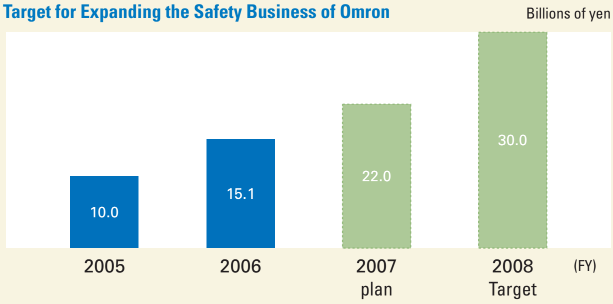
In addition to the need to pursue productivity at production sites, there is a rapidly growing need to establish greater safety. Positioning the safety equipment business specializing in safety at production sites as its top area of priority, the Industrial Automation Business (IAB) has focused its efforts on strengthening its expertise in system solutions and consulting in safety design know-how in addition to the manufacture of its wide-ranging product lineup of safety equipment from components to networks. As a result of its efforts, IAB has the largest share of the safety equipment market for the Japanese and Asian automobile and semiconductor industries.

Aiming for ambitious growth to further enhance our position in the market, we acquired the safety equipment business division of Scientific Technologies, Inc. a top manufacturer of safety equipment in North America, in June 2006, and established Omron Scientific Technologies, Inc (OSTI). OSTI has strengths in safety equipment such as powerful, long-distance safety light curtains and laser scanners and in North America also boasts high technical expertise and brand power in the food, pharmaceutical, and cosmetics industries as well as in the automobile, semiconductor, and electronic machinery industries. Therefore, IAB plans to add OSTI's safety devices to its product lineup and to expand their application.

Moreover, the integration of IAB's sensing and control technologies and OSTI's basic patents for optical application technology and superior know-how in creating powerful devices will boost IAB's ability to respond to advanced safety needs by reinforcing its expertise and pace of development.

As a result of these efforts, IAB's safety equipment business in fiscal 2008 is anticipating sales of ¥30 billion, which represents a three-fold increase in sales from fiscal 2005.

Target for Expanding the Safety Business of Omron



* OSTI has been in the scope of consolidation since September 2006

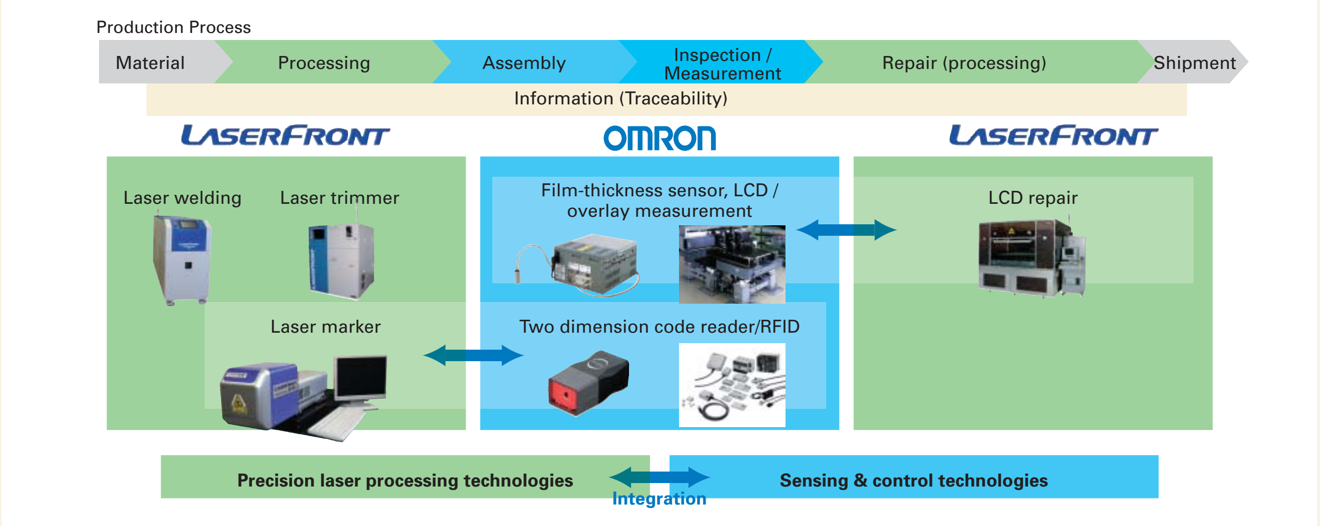
Case 2: Total quality support at the production site through precision laser processing technologies

In June 2007, Omron entered into a business and capital alliance with LaserFront Technologies Co., Ltd. (LFT), a development and manufacturing company of precision laser processing equipment that became independent of NEC Corp. and that recorded net sales of ¥10.3 billion in fiscal 2006, and officially changed its name to OMRON LASERFRONT Inc. (See P21). This company is the first in the world to commercialize the use of solid lasers and possesses technological expertise of the highest standard in both laser oscillators and laser process technology that utilizes the oscillators in manufacturing. The company in particular boasts top global share for laser CVD repair systems* for LCD panels.

Through this capital alliance, IAB added to its product lineup various products used in manufacturing and repair processes such as laser repair devices, laser markers** and laser welders which utilize precision laser processing technologies owned by LFT. Furthermore, IAB plans to expand the domain of its quality solution business by providing solutions for yield improvement and traceability systems in all areas of production processes including machining, assembly, inspection, measuring, and repair.

* CVD repair systems for LCD displays: these systems improve the yield in LCD mass production by using laser irradiation on defective areas occurring in the metal wiring pattern on LCD substrates in processes for LCD displays. Products are repaired through thin film pattern cuts, fusion joining, and connection of spaces between wiring with laser CVD film. Laser CVD (chemical vapor deposition) is a coating method based on the formation of a membrane through chemical and physical reactions of raw material gas on a laser irradiated surface achieved by irradiating laser beams on a substrate placed in the gas.

**Laser markers: devices which directly engrave characters such as letters and symbols on a surface by altering, fusing, or evaporating a part of the material surface through laser irradiation. One example of such devices is two-dimensional bar-code printing equipment.



Case 3: Full-fledged entry into the proprietary development and production of Omron semiconductors

Following the transfer of assets of the semiconductor business of Seiko Epson Corporation and its consolidated subsidiary Yasu Semiconductor Corporation to ECB at the end of fiscal 2006, OMRON Semiconductors Co., Ltd. (OSC) was established as a wholly-owned subsidiary and commenced operation in April 2007. The new company started with the commissioned manufacturing of nonvolatile memory and logic ICs employing an 8-inch CMOS (complementary metal oxide semiconductor) production line. As OSC gradually expands its production lineup to include proprietary semiconductor elements and other products, it is aiming for sales of ¥3 billion in fiscal 2007 and more than ¥5 billion in fiscal 2010.

The Omron Group has been involved in the development, production and marketing of custom ICs that offer functionality and cost performance not found in general-purpose semiconductors as well as MEMS (micro electro mechanical systems)* products such as flow sensors and pressure sensors that utilize semiconductor processes in their manufacture. The acquisition of OSC will facilitate further development of products that utilize semiconductors within our Group as we push ahead with plans to fully strengthen and expand our semiconductor-related business.

* MEMS (micro electro mechanical systems) are electronic device systems consisting of minute parts fabricated using semiconductor microfabrication technology where photographic technology is applied. Specifically, the method of production involves applying photographic sensitive material over a silicon wafer and printing an electronic circuit pattern through irradiation and then scraping off unwanted parts of the surface by etching and other methods.

Case 4: Expanding business in optical communication devices world wide

Acquisition of NHK Spring's optical communication parts business for the FTTH market

Led by advanced countries, the introduction of FTTH (fiber-to-the-home), a high-capacity, super-fast continuous connection network environment using a fiber optic cable connection, is rapidly progressing. In tune with this trend, ECB has focused its attention on lowering the cost of optical waveguides* used in optical splitters, which are key devices in FTTH. To achieve this, ECB put SPICA** (replication polymer optical waveguide) technology to practical use. Although as a technology SPICA is slightly inferior in quality in comparison with fused silica, which has become the standard, it enables simplification of production significantly through production based on replication.

Along the same lines, Omron acquired the optical communication parts business for the FTTH market of NHK SPRING Co., Ltd. in November 2006 to enhance the quality of optical waveguides and to accelerate the acquisition of a solid customer base. This business has become the top supplier in North America after commercializing high-performance quartz optical waveguides utilizing precision processing and coating technologies. This acquisition not only enabled ECB to secure a sound customer base in North America but also, the integration of ECB's cost-cutting technology and NHK Spring's high performance technology has placed ECB in a prime position for promoting business expansion in the rapidly growing global FTTH market.

* Optical waveguide: a component used to branch out optical signals sent through optical fiber. It transmits, divaricates, branches, and controls optical signals without leaking them in the circuitry of information communication devices.

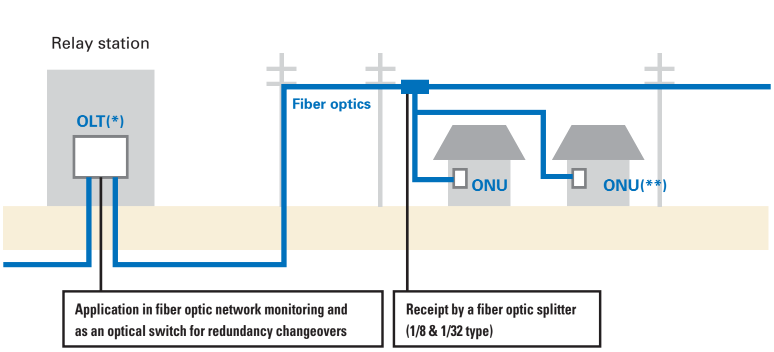
**SPICA: Stacked Polymer Optical IC/Advanced

Acquisition of Aduro, an American venture company and manufacturer of high-speed communication parts

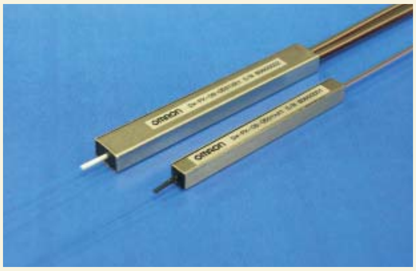
As the need for high volume data transmission at data centers and offices and ultra high-speed transmission to transmit full high-definition television images increases, electronic transmission is becoming increasingly inadequate in responding to the growing demands for transmission at greater speed and distance. As an answer to these needs, optical transmission is attracting attention. To include responding to such needs in ECB's business domain, in December 2005 Omron acquired Aduro, a US venture company known for its strengths in optical transmission and reception modules which combine optical wavelength multiplexing technology and optical from/to electronic conversion technology (CWDM-TOSA/ROSA***). With this acquisition as a launching point, ECB has developed small and high-speed TOSA and ROSA by integrating its own micro lens technology and Aduro's TOSA and ROSA technologies. ECB has been making progress toward developing the market including extension of electric cable and integration into transmission devices and video devices. Furthermore, in the future ECB will actively provide optimal solutions by integrating its own technology and the technologies acquired through M&A in the globally expanding optical high-speed communications market.

*** CWDM-TOSA/ROSA
CWDM: Coarse Wavelength Division Multiplexer (multiplexes and transmits 400 to 1600nm wavelengths).
TOSA: Transmitter Optical Sub-Assembly (transmission module)
ROSA: Receiver Optical Sub-Assembly (reception module)

FFTH System Structure



*OLT (optical line terminal): transmission device to connect the backbone network and FTTH
**ONU (optical network unit): receiver set in the home of fiber optic subscribers



Fiber optic splitters for FTTH

Case 5: Rising to the world's top position in LCD backlight production

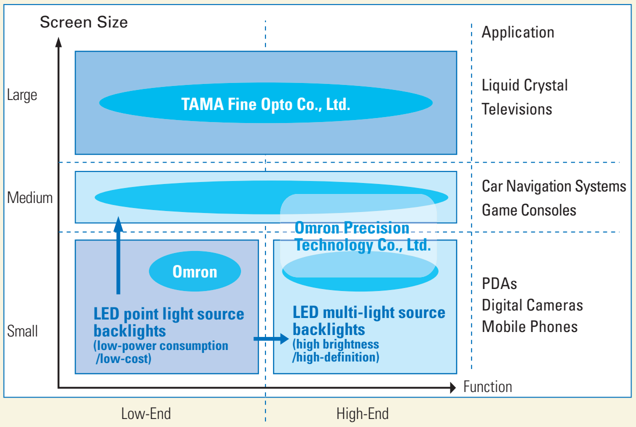
Using proprietary optical control technology that utilizes microlens array* (MLA) technology, ECB developed and commercialized small LCD backlight units for mobile phones that provide illumination from a single light source (LED). At the same time, with our sights set on making backlights a future core business, our aim is to ensure the soundness of growth potential in the LCD backlight business by broadening the business domain. To do this, in May 2004 we acquired the large-size LCD backlight business from Tama Electric Co., Ltd., which is a wholly-owned subsidiary of KOA Corp., and we made it a wholly-owned subsidiary of Omron under the name of Tama Fine Opto Co., Ltd.

This acquisition was followed by the acquisition of Pioneer Precision Machinery Corporation, which deals with small and medium multi-light source LCD backlights with multiple placed LEDs, in August 2006 as a wholly-owned subsidiary and renamed it Omron Precision Technology Co., Ltd. Through the acquisition of these two companies, Omron is able to meet the diverse needs of customers from low-end to high-end users in the area of point-source and multi-light source systems, and offers products meeting backlight needs in all areas including medium and large backlights, making Omron one of the world's leading companies in LCD backlights**

* MLA technology: Omron's proprietary technology which maximizes the efficiency of light use by reflecting light that normally diverges in all directions in a single direction using a microlens array (MLA), aggregating millions of microlenses on a single board.

**According to Omron estimates, we have the world's top share of slightly more than 20% in the area of small LCD backlights in terms of the number of units.

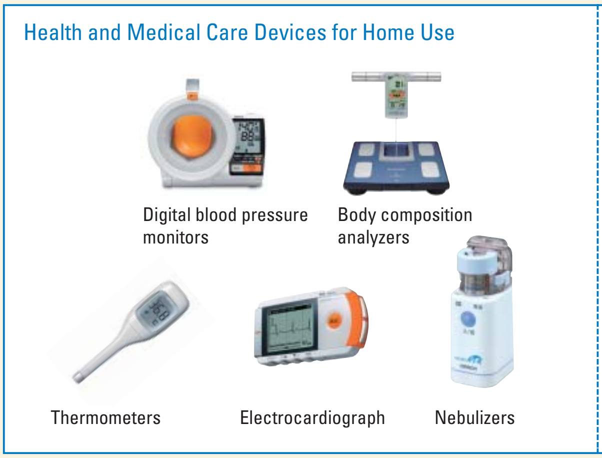
Building a Full Line of Small, Medium and Large Backlights

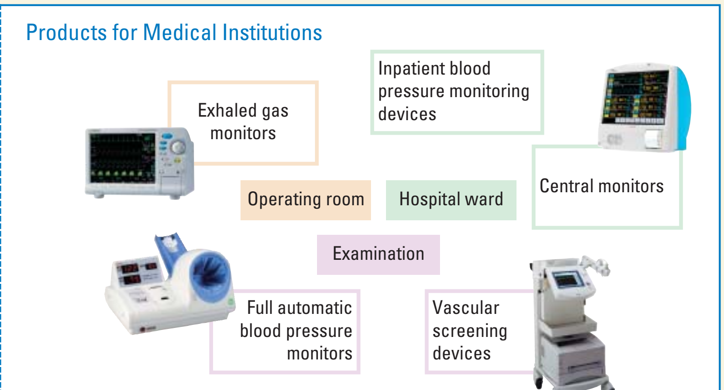


Case 6: Providing a wide range of products for use in the home to medical institutions

In June 2005, Omron Healthcare (HCB) acquired Colin Medical Technology Corporation (fiscal 2004 net sales: ¥8.6 billion), a leading medical device manufacturer. This acquisition expanded HCB's product line and created a framework which enables us to provide health care products for both home and institutional use in every area of lifestyle-related disease prevention. In addition to health and medical care devices for home use such as blood pressure monitors, body composition analyzers, and thermometers, HCB's business domain now includes a range of instruments for measuring biological information including inpatient vital sign monitors and screening devices to detect vascular hardening for medical institution use.

As societies, particularly in advanced countries, continue aging, the number of persons with lifestyle-related illnesses, such as hypertension and diabetes, is on the rise and countries are beginning to promote preventive medicine as a national policy measure. With its recent acquisition, HCB will strengthen its business for medical institutions with a view to growing its business for preventive medical care, an area which is expected to grow into a vibrant market in the future.





Strengthening the operational base for the medical institution business through the acquisition of Colin Medical Technology

CORPORATE GOVERNANCE, COMPLIANCE, AND RISK MANAGEMENT

As a global company, Omron is committed to demonstrating accountability to our stakeholders, increasing management transparency and maintaining & managing an appropriate governance system. In efforts to firmly establish corporate ethics of a high standard, we will continue to strengthen our compliance system and promote the establishment of a risk management framework that will support ongoing improvement in sustainable corporate value.

Corporate Governance

Basic Policies

Omron believes that pursuing long-term maximization of corporate value holds the key to fulfilling all stakeholders' expectations. Reaching this goal requires efficient and competitive management which we strive to achieve by creating an optimal management, structure and conducting fair and appropriate business operations. To achieve stronger corporate governance, we will concentrate our efforts on putting three guiding perspectives into practice continually: fulfilling management accountability, achieving management transparency and pursuing high business ethics.

Implementation Status of Corporate Governance

In addition to strengthening management monitoring functions, Omron separates management oversight and business execution to quickly respond to changes in the business environment. To facilitate business operations, Omron has adopted an executive officer system. Aiming to strengthen operations of each business area, an internal company system was introduced, with the president of each internal business company empowered by more authority to realize quicker decision-making and more streamlined operations.

Also, the goals between the President & CEO and executive officers, and the top management of each division company have been clarified, along with thorough promotion of management commitments and a performance-based compensation program for meeting various goals including those for profitability at each division company. These initiatives have been put in place to put into practice corporate value management based on shareholder value.

At the same time, we are taking preventive action against risk by putting in place a system that will identify various forms of risk with the potential to impede ongoing improvement in sustainable corporate value both internally and externally, and that will manage the risk of loss and prevent acts of staff which could be in breach of the law.

Basic Structure

• Management and Monitoring Structure

Omron has reduced the number of board members to seven to increase its efficiency and deepen deliberations. Our management monitoring functions are based on separating the duties of corporate management and business execution. The President & CEO is the only director who serves concurrently both in corporate management and business execution, while other directors are distanced from day to day business execution.

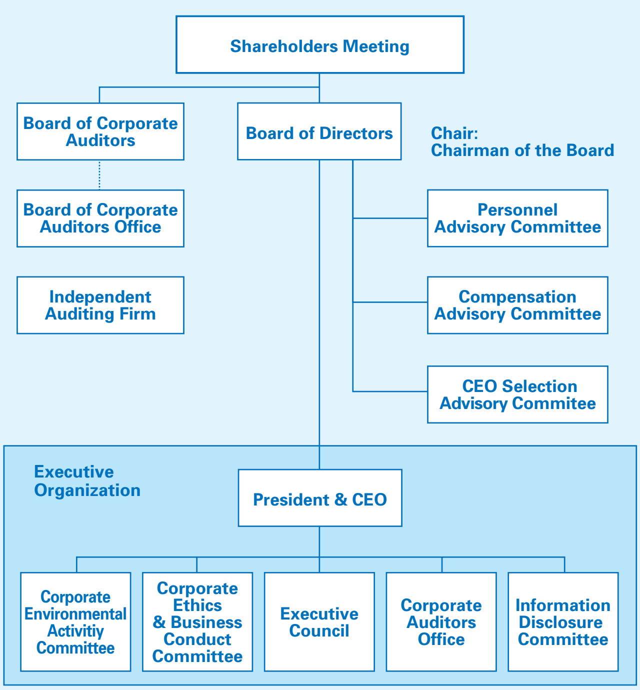
Furthermore, in order to enforce our management objectivity, we have separated the positions of Chairman of the Board of Directors and President & CEO, and worked to strengthen management monitoring functions. In addition, the Chairman of the Board of Directors oversees business operations as a representative of stakeholders by not taking part in the execution of business. In regard to matters of the appoint-

Corporate Governance Structure

Board of Directors (BOD) The BOD decides important business matters such as company objectives and management strategies, while overseeing the business practices of the President & CEO.

Board of Corporate Auditors This board verifies the effectiveness of the corporate governance system and its implementation, while also monitoring the day-to-day operations of executives including directors. The board consists of four corporate auditors, three of whom are outside auditors.

Personnel Advisory Committee This committee, chaired by an outside director, sets election standards for directors, corporate auditors and executive officers, selects candidates, and evaluates current executives.



Compensation Advisory Committee Also chaired by an outside director, this committee determines the compensation structure for directors, corporate auditors and executive officers, sets evaluation standards, and evaluates current executives.

CEO Selection Advisory Committee This committee, chaired by an outside director, is dedicated to nomination of the President. It deliberates on selection of the new President for the next term and a succession plan in preparation for contingencies.

Executive Council This council determines and reviews important business operation matters that are within the scope of authority of the President.

Information Disclosure Committee In June 2006, Omron set forth an information disclosure policy and standards that are more exacting than the Tokyo Stock Exchange rules. Established in June 2006, and chaired by the President, the committee monitors information disclosure activities of the entire Group.

ment, promotion, and compensation of all officers (directors, auditors, and managing officers), we maintain objectivity and transparency through the Personnel Advisory Committee and the Compensation Advisory Committee within the Board of Directors and by having our two outside directors chair each of the committees. These committees are the venue for addressing personnel and compensation matters relating to all officers, without the presence of the Chairman of the Board and the President & CEO.

• Auditing Functions

The Board of Corporate Auditors, consisting of four auditors (including three outside corporate auditors), monitors governance and management conditions as well as the daily activities of the Board of Directors and other management. Also, in undertaking its internal auditing function, the Audit Office, which functions directly under the President & CEO, periodically conducts internal audits of accounting, administration, business risks, and compliance in each headquarters division and in each division company. In addition to its auditing functions, the Audit Office also offers specific advice on ways of improving administrative functions.

Main Activities of Outside Directors

The outside directors attend monthly Board meetings and directors' liaison meetings (arranged as forums for free discussion and sharing information on management strategies following Board meetings), as well as technology liaison meetings for narrowing down specific technical themes. They provide appropriate advice and recommendations as necessary. Serving as chairman of the Personnel Advisory Committee, the Compensation Advisory Committee, and the President & CEO Selection Advisory Committee, the outside directors also contribute to the soundness of management.

In accordance with the selection standards for outside directors, Mr. Noriyuki Inoue and Mr. Kazuhiko Toyama have been appointed as Omron's two outside directors. Mr. Inoue has been selected for his extensive experience in corporate management and broad insight while Mr. Toyama has been selected as a management specialist on the basis of his long years of experience in the management of several companies. Omron looks forward to benefiting from the experience and wisdom of the two outside directors in the management of the company.

Comments from Outside Directors

For the fourth consecutive year, Omron has set a record in performance. This is proof of the high regard Omron's customers have for its superb expertise in technology. It is also an achievement made possible through growth resulting from Omron's ambitious M&A strategies and a broadening of the company's business domain. As a person involved in corporate management at the top-level, I am committed to working tirelessly for our shareholders and investors by considering what they expect of Omron in light of my own experience. At a time when there are strong demands placed on CSR management, I understand that it is my duty to engage in management keeping in mind our stakeholders including our shareholders and investors and to provide advice and monitoring for Omron's management team from an independent perspective. In this capacity, I am determined to fulfill my responsibilities as an outside director with the aim of improving shareholder value.

Noriyuki Inoue

Personal History

March 1957	Joined Daikin Industries, Ltd.
February 1979	Appointed Director, Daikin Industries, Ltd.
February 1985	Appointed Managing Director, Daikin Industries, Ltd.
June 1989	Appointed Senior Managing Director, Daikin Industries, Ltd.
June 1994	Appointed President and Representative Director, Daikin Industries, Ltd.
May 1995	Appointed President and Representative Chairman of the Board, Daikin Industries, Ltd.
June 1996	Appointed President and Representative Director, Daikin Industries, Ltd.
June 2002	Appointed CEO and Representative Chairman, Daikin Industries, Ltd. (current position)
June 2003	Appointed Director, OMRON Corporation (current position)

The true purpose of governance is to improve intrinsic corporate value, in other words, to make a company consistently well-regarded by society over a long period of time, thereby maintaining and increasing the earnings of the company's business. As a COO of the Industrial Revitalization Corporation of Japan over the past four years, I have engaged directly in corporate revitalization as an authority in corporate governance. I also had first hand experience working with the Kanebo affair*. That experience made me again realize that corporate governance in Japan - and the world for that matter - had come to a turning point in many respects. It is clear that governance can no longer be seen simply as an extension of the authority of shareholders or a refuge of mutual checking within a village society; these are no longer accepted as answers. Many excellent companies in advanced countries including Japan today are those which promote the concentration of knowledge and establish their competitive superiority on the basis of human capital and knowledge capital. I see Omron as a company in that category and think that it should remain that way in the future. In that context, I think we must consider how governance at Omron should be. Keeping this fundamental issue in mind, I am determined to devote my energy and efforts to contributing to Omron as a director involved in corporate governance to enhance the true corporate value of Omron. In these efforts, I would like to ask for the support of Omron's stakeholders.

Kazuhiko Toyama

* Kanebo affair: an accounting scandal at Kanebo, a maker of cosmetics and other products, after which the Industrial Revitalization Corporation of Japan became involved in the company's revitalization

Personal History

April 1985	Joined The Boston Consulting Group K.K.
March 1986	Resigned from The Boston Consulting Group K.K.
April 1986	Established Corporate Directions, Inc.
March 1993	Appointed Director, Corporate Directions, Inc.
April 2000	Appointed Executive Managing Director, Corporate Directions, Inc.
April 2001	Appointed President and Representative Director of Corporate Directions, Inc.
March 2003	Resigned from Corporate Directions, Inc.
April 2003	Appointed Executive Managing Director and COO, Industrial Revitalization Corporation of Japan
March 2007	Industrial Revitalization Corporation of Japan is dissolved
April 2007	Appointed CEO & Representative Director, Industrial Growth Platform, Inc. (current position)
June 2007	Appointed Director, OMRON Corporation (current position)

Initiatives in Governance in Fiscal 2006

• Directors' Term Shortened to One Year

In efforts to further clarify the responsibilities of the management team toward our shareholders and to enable rapid response to changes in the management environment, a resolution was passed to shorten the term of office for directors from two years to one year from fiscal 2007 onward.

• Establishment of the President & CEO Selection Advisory Committee

In December 2006 the President & CEO Selection Advisory Committee was established to further enhance transparency and objectivity in the replacement of presidents.

• Establishment of the Information Disclosure Committee

In June 2006, in response to the requests of increasingly discerning stakeholders to further disclose information, Omron established information disclosure policies and disclosure standards which are more rigorous than the timely disclosure standards of the stock exchanges. Based on these standards, we established the Information Disclosure Committee chaired by the President & CEO to monitor the information disclosure activities of the entire Group.

• Improvement of the Framework for an Internal Control System

We also put in place a structure for assessing and reporting on internal control relating to financial reports (in accordance with the Financial Instruments and Exchange Law) two years ahead of requirement to enable us to submit confirmation by the President & CEO to the Financial Services Agency.

Furthermore, the Board of Directors passed a resolution regarding a structure for ensuring that the execution of the directors' duties conforms to the law and to the Articles of Incorporation as well as a framework for establishing appropriateness in other company business. We are making efforts to put this framework in place.

Compliance and Risk Management

Basic Policies

• Compliance

Omron has set a high standard in corporate ethics which goes beyond simple observance of laws and regulations. In efforts to ensure that our corporate ethics are thoroughly understood and well established in work practices throughout the company, we have been focusing our compliance activities on four important areas: (1) monitoring, (2) implementing the PDCA (plan do check act) cycle, (3) reinforcing compliance education and (4) rebuilding our compliance structure.

• Risk Management

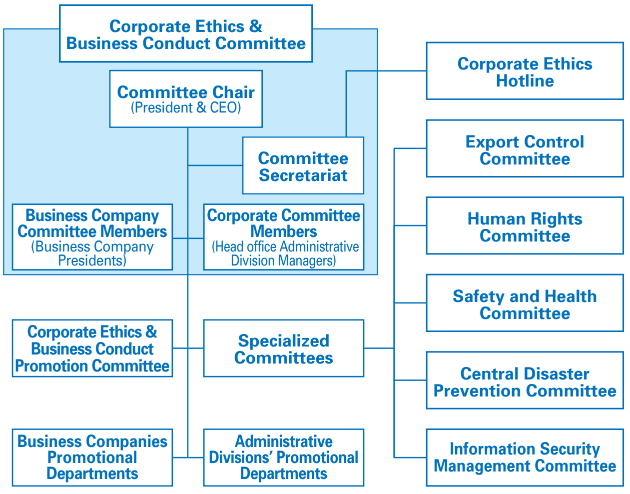
Omron is improving its internal control system as we believe that all risk arising from management and business operations must be accurately assessed and controlled in order to appropriately manage operations, maintain stable growth and protect management resources. To achieve this end, Omron is putting into place a system of risk management for detecting, analyzing, countering and monitoring risk in each headquarters division and division company. Moreover, oversight of risk management activities has been placed in the Corporate Resources Innovation Headquarters, and efforts are underway to promote and improve our risk management system and identify and control risk throughout the Group.

Basic Framework

In 2003, Omron combined its risk management and compliance activities by establishing the Corporate Ethics & Business Conduct Committee chaired by the President & CEO. The General Manager of each headquarters division and the President of each division company participate in this committee to report on corporate ethics efforts for their respective organizations in accordance with their corporate ethics and conduct framework and on the status of the response to risks. Moreover, the Corporate Resources Innovation Headquarters has established the Corporate Ethics Hotline (a call center was also opened at an outside law firm in fiscal 2005), a whistleblower center to receive reports directly from employees and their families.

Also, Omron has also appointed officers or managers in its Group companies to promote risk management and compliance throughout the Group and is conducting training for these officers every year in efforts to promote and thoroughly familiarize staff in the Omron Group with risk management.

Structure of Omron Corporate Ethics



Efforts in Fiscal 2006

• Compliance

In fiscal 2006, we undertook compliance monitoring at 11 Omron Group companies in Japan and overseas, including newly acquired companies, to confirm that laws and regulations are being observed. In all domestic companies, we reviewed compliance activities on the basis of the PDCA cycle in efforts to strengthen compliance. Also, at all of our domestic Group companies, in addition to conducting compliance training for directors, management, specialist personnel, and regular and temporary staff, we also held training sessions for new employees and staff transferring from other companies. In addition, we introduced e-learning as a new method of training and in fiscal 2007 we plan to broaden its application as we continue to focus our efforts on ways of promoting compliance throughout the Group.

• Risk Management

To establish an enduring information security system, we undertook a company-wide review of the status of security in domestic Group operations. With an understanding of our obligation to fulfill our social responsibility to our stakeholders by appropriately managing confidential and personal information to safeguard it against leaking or unauthorized use, we undertook a sweeping review of our rules for information management and commenced the construction of an integrated system for managing both confidential information and personal information. In fiscal 2007 we intend to implement comprehensive measures to guarantee security in information management at Group companies in Japan and we will also commence a review of rules for information management in our overseas Group companies.

Promoting corporate ethics and compliance in four regions outside of Japan

At the Omron Group, a total of 32,456 people are working in Japan and four regions around the world. To demonstrate fairness and integrity in all corporate activities and individual employees' behavior throughout the world, Omron is promoting compliance and risk management at each region through distribution of the Corporate Ethics Guidelines and monitoring of compliance status. In fiscal 2007, Omron will publish regional versions of the CSR Practice Guidelines, which are based on and upgraded from the Corporate Ethics Guidelines. Continued promotion of compliance training and monitoring is also planned.

North America

Compliance officers are in place at each North American Group company. In fiscal 2006, compliance monitoring for Group companies continued, while awareness of the whistleblower hotline was enhanced, resulting in 11 hotline contacts received.


Blake Thatcher


Bill Abbott

Europe

Under the leadership of Omron Europe's Risk Management Committee, compliance auditing and manager training have been conducted on a regular basis to strengthen compliance. Establishment of a contact channel to work in collaboration with the committee is now underway along with the improvement of the compliance promotion system. Managers in charge of regulatory matters were assigned to ensure strict observance of environmental and other regulations.


Patrick Duregger

China

Compliance and maintenance of ethical standards are among the key CSR issues for Omron in Greater China. In fiscal 2006, corporate ethics officers were assigned at each Group company, and the first promotion conference was held in Shanghai. In addition to manager training, compliance monitoring continued with a focus on observing compliance with three important laws, related to customs, bribery and operations falling outside each company's authorized scope of business.


Fumihiro Matsuzaki


Dai Ogihara

Asia-Pacific

Taking into consideration the language and cultural diversity in the region, the Corporate Ethics Guidelines have been translated into five different languages*. Efforts are focused on education, training and monitoring with the aim of strengthening understanding of corporate ethics and compliance among all employees through the distribution of guidelines and creation of a system to ensure strict legal observance.

*Thai, Indonesian, Vietnamese, Malay and Tamil

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Since the founding of our Company, Omron has held the belief that a company exists to serve society, and that only when this is accomplished should a company earn profits and enjoy sustainable growth. We take pride in being a company underpinned by the corporate core value of working for the benefit of society and we are committed to fulfilling our corporate social responsibility for the sustainable development of society as we live up to the expectations of all of our stakeholders.

The Basic Philosophy of CSR — Working for the Benefit of Society

Companies today are judged not only on the basis of their profitability and growth. How a company fulfills its responsibility to society and how it contributes to promoting sustainable development have also come to be considered important criteria in judging a company. In addition to the change in the company's raison d'être, the expansion and globalization of Omron's business and the subsequent diversification of our stakeholders* prompted us to review and reorganize the platform of our corporate philosophy, and we have rearranged it in the form of the new Omron Principles announced in May 2006. This review process resulted in our reaffirmation of the importance of our corporate core value: "Working for the benefit of society" which we have upheld since our founding. This is the very spirit behind our Corporate Motto established in 1959: "At work for a better life, a better world for all," Omron has been managed on the basis of this corporate core value since its formulation. The Omron Group once again places this corporate core value at the center of the new Omron Principles and puts it into action with even stronger conviction. We are convinced that serving society is the true fulfillment of a company's CSR.

Omron intends to continue its management in conformity with the belief that only companies that add value and meet social needs can earn trust and respect from society as good corporate citizens, and thus successfully continue to exist as businesses. As society's needs become more diversified and wide-ranging, and the social responsibilities that companies assume become even more multifaceted and evolving, it is crucial that companies meet society's expectations.

Disseminating and instilling The Omron Principles in All Staff at Omron

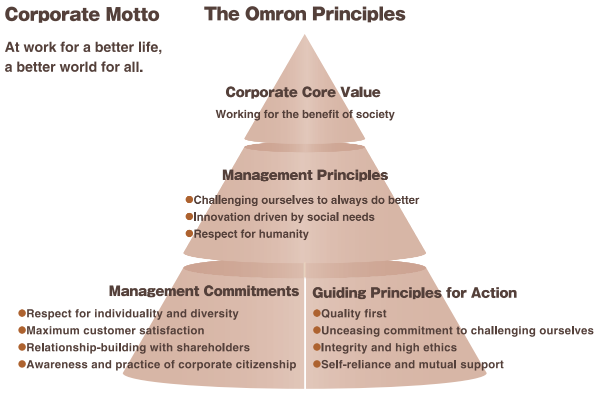
The Omron Principles take on real meaning only when each and every employee of the company can describe them in his or her own words and put them into practice. This is because our people are the driving force for all of our corporate activities.

Therefore, in 2006 when we announced the new Omron Principles, we distributed a booklet entitled the "Introduction to The Omron Principles" to all staff worldwide. However, our efforts did not stop at simply distributing these booklets. We also prepared two action guidelines and distributed these to all staff in the Omron Group in Japan. The first set of guidelines, CSR Practice Guidelines, specify the Group's basic policy for addressing important CSR issues, which is a reflection of current worldwide trends, as well as define what all Omron Group directors and employees should or should not adopt in conformance with this policy.

The second booklet is "Implementing the Guiding Principles for Action," which stipulates the key points of practices for Omron Group directors and employees to put Guiding Principles for Action into practice in day-to-day operations.

Following the distribution of the booklets, discussions at workplace meetings were held throughout the Omron Group in Japan on three occasions in May, July and December to January. The third meeting on the theme of the CSR Practice Guidelines evoked particularly meaningful discussion because a total of 42 briefings were given for all managerial class people in Japan before the meeting.

* Stakeholders: Omron considers as its stakeholders employees and potential employees, business partners, customers, shareholders & investors, and society (in other words, all those interested parties who are affected by Omron's activities).



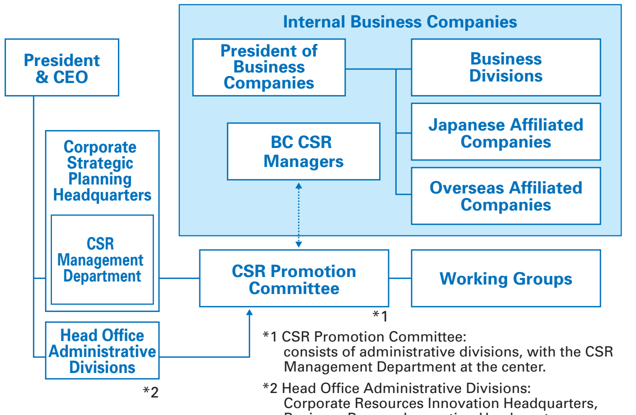
CSR Management System

It is Omron's firm belief that alignment of CSR with its business strategy and embedding it into its business operations is absolutely essential. In efforts to enhance the effectiveness and thoroughness of Omron's CSR-oriented management by ensuring that CSR is more fully integrated into the business strategy, we established the CSR Management Department, within the Corporate Strategic Planning Headquarters, as a body under the direct control of the President & CEO.

The CSR Management Department is responsible for the planning and general control of CSR within the company. Specific CSR activities, which include environmental conservation, respect for human rights, promotion of appropriate labor standards, compliance and corporate ethics, and community relations, have been put into practice by assigning a CSR Manager at each internal business company. In addition, the CSR Promotion Committee coordinates CSR across the various divisions at headquarters.

Under this committee there are also working groups which take up to various CSR themes and issues. Under this system, during the current second stage of GD2010, the Omron Group is promoting CSR activities built on three pillars, with particular focus on four key issues.

CSR Management Structure



*1 CSR Promotion Committee: consists of administrative divisions, with the CSR Management Department at the center.

*2 Head Office Administrative Divisions: Corporate Resources Innovation Headquarters, Business Process Innovation Headquarters, Monozukuri Innovation Headquarters, etc.

Basic CSR policy—Three pillars

(1) Contribute to a better society through business operations.

Continuously offer advanced technologies, high-quality products, and services by stimulating innovation driven by social needs.

(2) Always demonstrate fairness and integrity in the promotion of corporate activities.

Promote more transparent corporate activities that maintain fairness and integrity not only through strict compliance with laws, regulations, and social rules but also through increased accountability.

(3) Show a commitment to addressing societal issues as a concerned party.

Address issues such as human rights, environment, diversity, and community relations in a way that draws on Omron's distinctive strengths.

CSR activities—Four focus areas

(1) Promoting innovation driven by social needs through business operations
(2) Strengthening legal compliance and corporate ethics
(3) Addressing diversity issues
(4) Committing to environmental conservation

Practicing CSR

Four Focus Areas for CSR

Resolving security issues in manufacturing operations was one example of our initiatives in the four focus areas of CSR in fiscal 2006. In addition, we also provided a system for improving quality management and traceability in food production sites. In promoting diversity in the work place, we made efforts to improve the employment rate of the disabled and increased the overall employment ratio of the disabled at Omron as of June 2006 to 2.04% (compared with 1.78% in June 2005), coming close to meeting 2.3%, which is a high level in manufacturing industries and is our goal. To promote greater participation of women in the workplace, albeit on a small scale, we have been conducting ongoing training of female leaders and, as a result, the ratio of women in management is steadily increasing. We have also steadily implemented programs in compliance and environmental initiatives.

Promoting CSR Activities in China

Since 1979 when the company initiated technological exchange with China, Omron has built strong associations with the country. Beginning in 2001 Omron, based on the GD2010 plan, specified China as the most important strategic region and aggressively expanded business in the region. At present, more than 13,000 Chinese employees are working in Greater China, with the scale of production and sales expanding annually. The results have been annual expansion in the economical, environmental and social impact of Omron's businesses in China. Against this backdrop, we decided to give priority to our CSR activities in China that contribute to promoting harmonious social relations in areas where Omron has a presence, and initiate activities accordingly.

Our principal activities conducted in China during fiscal 2006 included: (1) assignment of corporate ethics officers in each affiliated company, (2) employment of and support to people with disabilities, (3) the inclusion of additional CSR items in contract negotiations with 136 suppliers in Greater China and the signing of contracts with 75% of these, (4) group environmental audits (internal audits) at plants of two affiliated companies, and (5) the establishment of the Omron Education Fund.

Tackling Environmental Issues

The Omron Group has positioned environmental issues as one of its important management objectives. We have formulated action plans for the Group companies and headquarters divisions accordingly and we evaluate their implementation in terms of products, business places, and violation of environmental laws or regulations according to our Group environmental auditing standards, ranking companies and headquarters divisions from A to C. The assessment results are then reflected in the following year's annual plan, and companies and headquarters divisions with a C rank are obliged to undertake additional investment in environmental protection in specific environmental areas to promote improvement. In fiscal 2006, there were companies which were unable to reach their targets in curbing CO_2, waste, and use of paper accompanying an increase in production. During fiscal 2007, we will focus our efforts on appropriate measures to address areas where goals have not yet been reached and to promote energy-saving measures in distribution under the tighter provisions of the revised Law Concerning the Rational Use of Energy.

For more details about Omron's CSR activities, please see our Sustainability Report 2007.

We would like to engage in dialog with as many of our stakeholders as possible. Taking the time to explain to you Omron's views in response to your expectations of us and gaining your understanding of our activities and plans is, we believe, very important in fulfilling our role as a responsible and accountable corporate citizen. If you would like to learn more about Omron's CSR principles, plans, and reports of activities to date, we would like to invite you to take a look at our report "Sustainability Report 2007" available on our website. We would appreciate hearing your opinions.

http://www.omron.com/corporate/csr/

DIRECTORS, CORPORATE AUDITORS AND EXECUTIVE OFFICERS

As of June 21, 2007

DIRECTORS (7 persons), CORPORATE AUDITORS (4 persons)

Chairman of the BOD
Yoshio Tateisi

President and CEO
Hisao Sakuta

Director and Executive Vice President Shingo Akechi

Director and Executive Vice President Tadao Tateisi

Senior Managing Director
Tsukasa Yamashita

Director (external)
Noriyuki Inoue

Director (external)
Kazuhiko Toyama

Corporate Auditor
Tsutomu Ozako

Corporate Auditor (external)
Satoshi Ando

Corporate Auditor (external)
Yoshio Nakano

Corporate Auditor (external)
Hidero Chimori

EXECUTIVE OFFICERS (24 persons)

Executive Vice President
Fumio Tateisi

Senior Managing Officers
Soichi Yukawa
Yutaka Takigawa

Managing Officers
Koichi Imanaka
Yoshinobu Morishita
Takuji Yamamoto
Yoshinori Suzuki
Yukio Kobayashi
Hideo Higuchi
Toshio Ochiai
Masaki Kobayashi
Hiroki Toyama
Kojiro Tobita

Executive Officers
Kazunobu Amemiya
Yutaka Fujiwara
Tatsunosuke Goto
Mike van Gendt
Toshio Yamashita
Roberto Maietti
Yoshisaburo Mogi
Hiroshi Miyagawa
Koichi Tada
Kiichiro Kondo
Shigeki Fujimoto

FINANCIAL SECTION (U.S. GAAP)

Contents

Notes: Financial Highlights, Six-year Financial Summary, Fiscal 2004 Management's Discussion and Analysis (including Business and Other Risks) are unaudited.

FINANCIAL HIGHLIGHTS

OMRON Corporation and Subsidiaries

	Millions of yen (except per share data)			Thousands of U.S. dollars (Note 2) (except per share data)
	FY2006	FY2005	FY2004	**FY2006**
For the year:				
Net sales	**¥ 736,651**	¥626,782	¥608,588	**$ 6,242,805**
Income before income taxes, minority interests, equity in loss of affiliates and cumulative effect of accounting change	**66,288**	64,845	54,031	**561,763**
Income before cumulative effect of accounting change	**38,280**	36,964	30,176	**324,407**
Net income	**38,280**	35,763	30,176	**324,407**
Per share data (yen and U.S. dollars):				
Income before cumulative effect of accounting change				
Basic	**¥ 165.0**	¥ 156.2	¥ 126.5	**$ 1.40**
Diluted	**164.9**	156.1	124.8	**1.40**
Net income				
Basic	**165.0**	151.1	126.5	**1.40**
Diluted	**164.9**	151.1	124.8	**1.40**
Cash dividends (Note 1)	**34.0**	30.0	24.0	**0.29**
Capital expenditures (cash basis)	**¥ 44,689**	¥ 40,560	¥ 38,579	**$ 378,720**
Research and development expenses (Note 3)	**52,028**	55,315	49,441	**440,915**
At year end:				
Total assets	**¥ 630,337**	¥589,061	¥585,429	**$ 5,341,840**
Total shareholders' equity	**382,822**	362,937	305,810	**3,244,254**

Notes: 1. Cash dividends per share represent the amounts applicable to the respective year, including dividends to be paid after the end of the year.

2. The U.S. dollar amounts represent translations of Japanese yen at the approximate exchange rate at March 31, 2007, of ¥118=$1.

3. A loss of ¥4,814 million in connection with the transfer of the substitutional portion of the benefit obligation and related plan assets is allocated to Research and development expenses for FY2005.

SIX-YEAR SUMMARY

OMRON Corporation and Subsidiaries

	Millions of yen (except per share data)					
	FY2006	FY2005	FY2004	FY2003	FY2002	FY2001
Net sales (Note 2 and 3):						
Industrial Automation Business	**¥ 305,568**	¥272,657	¥250,329	¥229,638	¥202,518	¥184,185
Electronic Components Business	**138,352**	97,699	101,127	88,988	79,365	81,062
Automotive Electronic Components Business	**93,321**	77,593	64,558	58,824	59,480	50,800
Social Systems Business	**105,944**	91,804	115,205	135,997	116,652	128,057
Healthcare Business	**65,726**	61,090	50,583	46,962	42,331	40,617
Other Businesses	**27,740**	25,939	26,786	24,480	34,727	49,243
	736,651	626,782	608,588	584,889	535,073	533,964
Costs and expenses:						
Cost of sales	**452,452**	389,368	358,817	344,835	327,413	353,429
Selling, general and administrative expenses	**168,135**	161,310	144,219	142,157	135,112	134,907
Research and development expenses	**52,028**	55,315	49,441	46,494	40,235	41,407
Subsidy from the government	**—**	(41,339)	—	—	—	—
Other expenses (income), net	**(2,252)**	(2,717)	2,080	3,511	27,522	29,669
	670,363	561,937	554,557	536,997	530,282	559,412
Income (loss) before income taxes, Minority interests, equity in loss (earnings) of affiliates and cumulative effect of accounting change	**66,288**	64,845	54,031	47,892	4,791	(25,448)
Income taxes	**26,418**	27,238	22,108	20,762	3,936	(9,348)
Minority interests	**238**	150	264	411	285	132
Equity in loss (earnings) of affiliates	**1,352**	493	1,483	(92)	59	(75)
Income (loss) before cumulative effect of accounting change	**38,280**	36,964	30,176	26,811	511	(16,157)
Net income (loss)	**38,280**	35,763	30,176	26,811	511	(15,773)
Per share data (yen):						
Income (loss) before cumulative effect of accounting change						
Basic	**¥ 165.0**	¥ 156.2	¥ 126.5	¥ 110.7	¥ 2.1	¥ (65.0)
Diluted	**164.9**	156.1	124.8	107.5	2.1	(65.0)
Net income (loss)						
Basic	**165.0**	151.1	126.5	110.7	2.1	(63.5)
Diluted	**164.9**	151.1	124.8	107.5	2.1	(63.5)
Cash dividends (Note 1)	**34.0**	30.0	24.0	20.0	10.0	13.0
Capital expenditures (cash basis)	**¥ 44,689**	¥ 40,560	¥ 38,579	¥ 38,115	¥ 34,454	¥ 38,896
Total assets	**630,337**	589,061	585,429	592,273	567,399	549,366
Total shareholders' equity	**382,822**	362,937	305,810	274,710	251,610	298,234
Value indicators:						
Gross profit margin (%)	**38.6**	37.9	41.0	41.0	38.8	33.8
Income (loss) before tax/net sales (%)	**9.0**	10.3	8.9	8.2	0.9	(4.8)
Return on sales (%)	**5.2**	5.7	5.0	4.6	0.1	(3.0)
Return on assets (%)	**10.9**	11.0	9.2	8.3	0.9	(4.5)
Return on equity (%)	**10.3**	10.7	10.4	10.2	0.2	(5.1)
Equity ratio (%)	**60.7**	61.6	52.2	46.4	44.3	54.3
Inventory turnover (times)	**5.35**	5.43	5.17	4.73	4.36	4.25
Price/earning ratio (times)	**19.1**	22.2	18.5	23.3	900.8	—
Assets turnover (times)	**1.21**	1.07	1.03	1.01	0.96	0.93
Debt/equity ratio (times)	**0.647**	0.623	0.914	1.156	1.255	0.842
Interest coverage ratio (times)	**59.60**	71.43	53.36	43.27	23.59	4.36

Notes: 1. Cash dividends per share represent the amounts applicable to the respective year, including dividends to be paid after the end of the year.

2. The Automotive Electronic Components Business has been classified separately from the Electronic Components Business effective from April 2003. Figures for FY2002 and FY2001 have been reclassified in accordance with the change.

3. As of October 1, 2004, the ATM and other information equipment business that was included in the Social Systems Business was transferred to an affiliate accounted for using the equity method.

Market Environment

Note: The macro indicators may be changed in subsequent revisions. The figures presented are the newest data as of the end of June 2007.

1. Macroeconomic Environment

The Japanese economy improved steadily as corporate profits improved and capital investment increased, in addition to which there were improvements in employment and income situations. While there were concerns for the U.S. economy such as adjustments in the housing sector, it held firm supported by capital investment and consumer spending. The European economy also did well overall where improved corporate earnings led to increased capital investment and as consumer spending recovered. As Asian economies continued to expand led by exports, in particular China maintained its high rate of growth. Furthermore, India has shown remarkable economic growth.

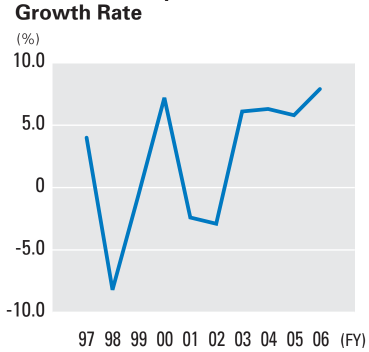
Growth rates of real GDP for each country (calendar year basis)

	Japan	U.S.	Canada	Germany	France	U.K.	Italy	Russia	China	Korea	India	Brazil
2000	2.9	3.7	5.2	3.2	4.0	3.8	3.8	10.0	8.4	8.5	4.4	4.3
2001	0.2	0.8	1.8	1.2	1.8	2.4	1.7	5.1	8.3	3.8	5.8	1.3
2002	0.3	1.6	2.9	0.0	1.1	2.1	0.3	4.7	9.1	7.0	3.8	2.7
2003	1.4	2.5	1.9	-0.2	1.1	2.7	0.1	7.3	10.0	3.1	8.5	1.1
2004	2.7	3.9	3.1	1.3	2.3	3.3	1.0	7.2	10.1	4.7	7.5	5.7
2005	1.9	3.2	3.1	0.9	1.7	1.9	0.2	6.4	10.4	4.2	8.8	2.9
2006	2.2	3.3	2.8	2.8	2.2	2.8	1.9	6.7	10.7	5.0	9.4	3.7

Source: Cabinet Office "Overseas Economic Data" June 2007, etc.

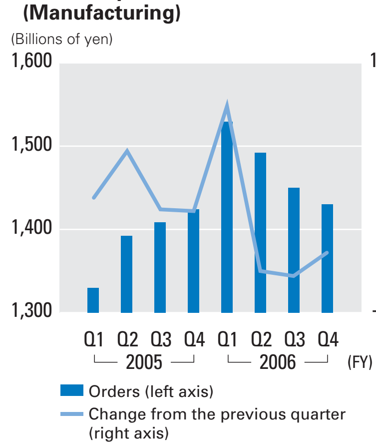
Domestic Macroeconomic Environment

Real Private Capital Investment Growth Rate



Note: Change from the previous year, seasonally adjusted
Source: Cabinet Office, Government of Japan

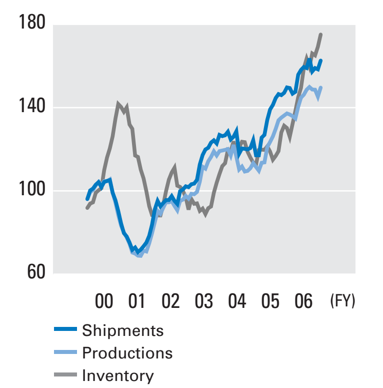
Machinery Orders Growth Rate (Manufacturing)



Note: Seasonally adjusted
Source: Cabinet Office, Government of Japan

Indices of Electronic Parts and Devices

(Seasonally adjusted indices, 2000 average =100)

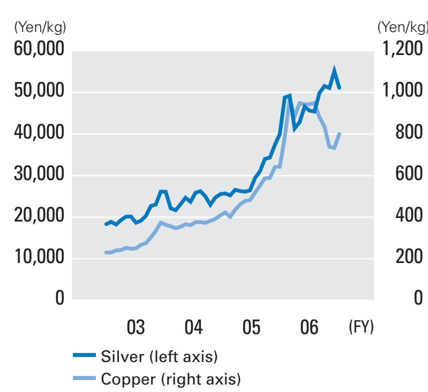


Source: Ministry of Economy, Trade and Industry

2. Market Trends Affecting the Omron Group

The market environment surrounding the Omron Group was favorable for the main product area of factory automation control equipment supported by demand for capital investment, and was solid for business and consumer equipment for IT and digital related products as the electronic parts industry recovered. Growth continued for automotive electronics as the needs remained high for car electronics in the safety and environmental areas. Furthermore, as railroad companies all over Japan increased reciprocal use of IC cards, demand for updating equipment in railway stations increased. Rising costs for raw materials such as copper and silver were factors putting pressure on profits.

Silver and Copper Prices



General Overview of Consolidated Results and Financial Condition

In this market environment the Company experienced real growth in its existing businesses, and with a proactive implementation of a growth strategy including M&A activities, as well as the depreciation of the yen, Group sales grew 17.5 percent over the previous fiscal year. In addition, income before income taxes, minority interests, equity in loss of affiliates and cumulative effect of accounting change, ("net income before income taxes" hereafter) and net income increased by 2.2 percent and 7.0 percent, respectively so that the Company has achieved increases in both sales and profits for five consecutive years, and both sales and profits were at record highs.

Total assets increased 7.0 percent over the previous fiscal year due to the assets of acquired companies. Meanwhile, shareholders' equity increased 5.5 percent over the previous fiscal year, and the shareholders' equity ratio was 60.7 percent, compared to 61.6 percent at the end of the previous fiscal year.

Return on equity (ROE) was 10.3 percent due to the increase in net income, and the Group has cleared its goal of maintaining a level of 10 percent for four consecutive years.

Review and Analysis of the Income Statement

Note 1: The following business segment abbreviations are used in the discussion that follows: Industrial Automation Business (IAB), Electronic Components Business (ECB), Automotive Electronic Components Business (AEC), Social Systems Business (SSB) and Healthcare Business (HCB).

Note 2: Under U.S. accounting standards, the profit/loss (excluding adjustment of income returned) recognized on the transfer of the substitutional portion of employee pension funds in fiscal year 2006 is included in the presentation of "cost of sales," "selling, general & administrative expenses" and "research & development expenses." However, to enable an easy comparison with previous fiscal years, in the following analysis, it is assumed that this profit or loss together with the adjustment of income returned is allocated in one lump sum to the gain on transfer of the substitutional portion of the employees' pension fund.

Sales

Consolidated net sales, generally boosted by growth in existing businesses, the depreciation of the yen, and the acquisitions of OSTI and OPT (refer to Note 5 on page 63) increased 17.5 percent over the previous year to ¥736.7 billion. All segments recorded increased revenues, and in particular the acquisition of OPT contributed to ECB, and sales for SSB grew significantly due to the boost from demand for improvement and replacement of equipment in railway stations throughout Japan to accommodate the implementation of IC cards for boarding passes.

In addition, revenues increased in all regions, with net sales up by 9.3 percent over the previous fiscal year in Japan, and by 28.2 percent overseas (overseas sales comprised 47.3 percent of total sales). In particular sales in the region that the Group places the most importance on, Greater China, posted remarkable growth over the previous fiscal year at 66.4 percent.

OSTI:	
Omron Scientific Technologies, Inc.	
Business lines:	Development, manufacturing, sales, consulting, and service of safety equipment
Capital:	US$10,000 (wholly owned by OMRON MANAGEMENT CENTER OF AMERICA INCORPORATED)
Date shares acquired:	September 12, 2006
Location:	Fremont, California, U.S.A.
Employees:	320
Sales:	$52,141,000 (for the year ended December, 2005)

OPT:	
Omron Precision Technology Co., Ltd.	
Business lines:	Sales composition in fiscal 2005 was 85 percent small liquid crystal backlighting and 15 percent rubber and metal molding
Capital:	¥448 million (wholly owned by Omron Corporation)
Date shares acquired:	August 1, 2006
Location:	Saitama Prefecture
Employees:	about 270 (as of July 1, 2006, non-consolidated)
Sales:	¥36.4 billion (for the year ended March 2006)

Cost of Sales and SG&A Expenses

In line with the overall growth in sales, the cost of sales and SG&A expenses increased 21.2 percent and 10.1 percent, respectively. The cost of sales margin rose 1.8 percentage points over the previous year due to the effect of soaring prices for copper, silver and other raw materials. As a result of efforts to achieve the target revenue structure for the 2nd Stage of GD2010, the SG&A expense ratio was reduced by 1.5 percentage points from the previous fiscal year. Meanwhile, R&D expenses rose ¥1.5 billion over the previous fiscal year to ¥52.0 billion. However, the R&D expense ratio fell by 1 percentage point from the previous fiscal year to 7.1 percent as net sales increased. Furthermore, the Group will not change its policy of active investment in R&D, but will strive for more efficient operations and we estimate that in fiscal 2007 the R&D expense ratio will be maintained at the same level of 7.1 percent.

Note: SG&A expenses include neither research & development expenses nor the profits from transfer of employee pension funds.

Other Expenses (Income) * See Note 11 on page 72

The net amount of other expenses (income) was a net gain of ¥2.3 billion. While gains from sales of investment securities declined by ¥3.3 billion from the previous fiscal year, and there was a loss of ¥5.9 billion from the sale of property at the Tokyo head office, there was a gain on the contribution of securities to retirement benefit trusts of ¥10.1 billion, which covered the losses.

Net Income before Income Taxes, Net Income and Profit Distribution

Due to the results noted above, net income before income taxes increased by ¥1.4 billion (2.2 percent) over the previous year to ¥66.3 billion, and net income increased ¥2.5 billion (7.0 percent) over the same period to ¥38.3 billion.

In addition, basic net income per share was ¥165.0 (¥151.1 in the previous year).

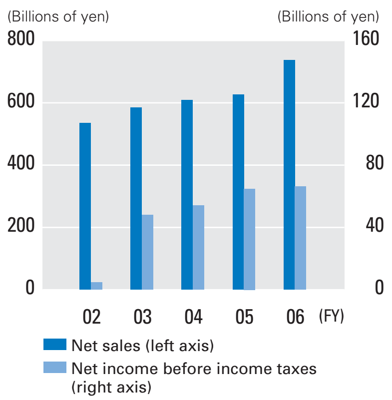
Based on our profit distribution policy (see page 17), an annual dividend of ¥34 per share was paid (¥4 higher than in the previous fiscal year).

Costs, expenses and income as percentages of net sales

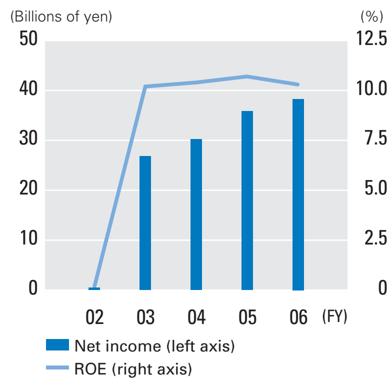
*based on the assumption that the all the profit from the transfer of the substitutional portion of employees' pension fund was accounted for in a lump sum

	FY2006	FY2005		FY2004
Net sales	**100.0%**	100.0%		100.0%
Cost of sales	**61.4**	62.1	59.6*	59.0
Gross profit	**38.6**	37.9	40.4*	41.0
Selling, general and administrative expenses	**22.8**	25.8	24.3*	23.7
Research and development expenses	**7.1**	8.8	8.1*	8.1
Transfer of substitutional portion of employees' pension fund	**—**	—	(1.9)*	—
Interest expenses (income), net	**(0.1)**	(0.1)		(0.0)
Income before income taxes, minority interests, equity in loss of affiliates and cumulative effect of accounting change	**9.0**	10.3		8.9
Income taxes	**3.6**	4.4		3.6
Income before cumulative effect of accounting change	**5.2**	5.9		5.0
Cumulative effect of accounting change	**—**	(0.2)		—
Net income	**5.2**	5.7		5.0

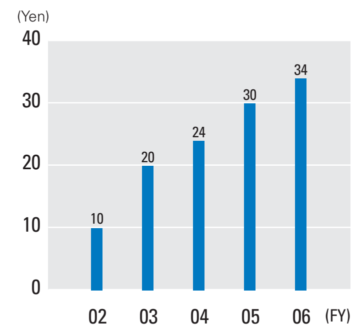
Net Sales & Net Income before Income Taxes



Net Income & ROE



Dividends per Share



Segment Information *Prepared in accordance with Japanese Securities Exchange Law

Note 1: Disclosure of operating income
Sales in the segment information column show sales to external customers, excluding inter-segment transactions. Conversely, operating income shows operating income including internal profits, prior to the deduction of amounts such as inter-segment transactions and headquarters expenses that are not apportionable.

Note 2: The comparison with the previous fiscal year is calculated based on a comparison of the results for the current fiscal year and the profit/loss for the previous fiscal year before the transfer of the substitutional portion of the employee pension funds.

*** Please refer to pages 20 to 30 for details on the business results, prospects for fiscal 2007 and strategy of each segment.**

1. Conditions by Business Segments

IAB enjoyed good orders, and OSTI, which became a subsidiary in September 2006, contributed so that net sales increased 12.1 percent over the previous fiscal year to ¥305.6 billon, and operating income increased 15.7 percent over the same period to ¥48.5 billion.

In addition to existing ECB businesses, OPT, which became a subsidiary in August 2006, contributed so that net sales increased 41.6 percent over the previous fiscal year to ¥138.4 billion, and operating income increased 16.9 percent over the same period to ¥13.1 billion.

Net sales in AEC grew 20.3 percent from the previous fiscal year to ¥93.3 billion based on the need for car electronics to provide for safety and concern for the environment. However, due to soaring raw material prices and the delay in improvements in productivity at North American facilities, the Company recorded an operating loss of ¥1.2 billion (the operat-

Growth in Net Sales by Business Segment

	FY2006	FY2005	FY2004
IAB	**12.1%**	8.9%	9.0%
ECB	**41.6**	(3.4)	13.6
AEC	**20.3**	20.2	9.7
SSB	**15.4**	(20.3)	(15.3)
HCB	**7.6**	20.8	7.7
Other	**6.9**	(3.2)	9.4

Note: For FY2004, Social Systems Business includes "Social Systems Solutions and Service Business Company" and "Financial Systems Business Company."

ing loss in the previous fiscal year was ¥2.0 billion).

As railway boarding passes shifted to using IC cards across Japan, there was demand to improve or replace automated passenger gate and automatic ticket vendors, and SSB net sales increased 15.4 percent over the previous fiscal year to ¥105.9 billion. Meanwhile the effects of structural reform began to emerge and operating income increased 82.0 percent over the same period to ¥8.1 billion.

HCB was boosted by a worldwide movement to prevent lifestyle related illness and recorded a 7.6 percent increase in net sales over the previous fiscal year to ¥65.7 billion. However, operating income recorded only an 0.4 percent increase over the same period to ¥8.7 billion, due to the inclusion of expenses for restructuring the business and price competition on a global scale.

Other business was primarily in the Business Development Group, which searches for and fosters new businesses, and is in charge of fostering and strengthening businesses that are not handled by division companies. The total net sales for other segments increased 6.9 percent over the previous fiscal year to ¥27.7 billion, and operating income increased 44.8 percent in the same period to ¥2.4 billion.

Composition of Net Sales by Business Segment

	FY2006	FY2005	FY2004
IAB	**41.5%**	43.5%	41.1%
ECB	**18.8**	15.6	16.6
AEC	**12.7**	12.4	10.6
SSB	**14.4**	14.6	18.9
HCB	**8.9**	9.7	8.3
Other	**3.7**	4.2	4.5

Note: The composition of net sales is based on the classifications reported in the Six-year Summary.

2. Review of Sales by Region

Japan

Net sales grew solidly in IAB and ECB as capital investment in semiconductors and digital household appliances continued to be high. Also, net sales in SSB grew significantly on demand for improvements and replacement to the railway station equipment as railway boarding passes using IC cards were introduced nationwide. Meanwhile, AEC net sales remained level with the previous fiscal year as the domestic market for sales of new automobiles matured. As a result, total net sales in Japan increased 11.2 percent over the previous fiscal year to ¥412.1 billion, and operating income increased by 17.7 percent over the same period to ¥62.3 billion.

North America

Net sales in IAB and ECB grew solidly as capital investment remained firm. Also, net sales in AEC grew with the launch of new products in wireless control equipment, power window switches and others. As a result, net sales in North America increased 23.0 percent over the previous fiscal year to ¥98.0 billion, but operating income decreased 27.1 percent over the same period to ¥300 million.

Europe

As capital investment in Europe increased along with improved earnings at European corporations, net sales at IAB grew, centering on inverters and servomotors. Also, AEC and HCB performed solidly. As a result, net sales in Europe increased 17.6 percent over the previous fiscal year to ¥116.4 billion, and operating income increased 40.8 percent over the same period to ¥10.3 billion.

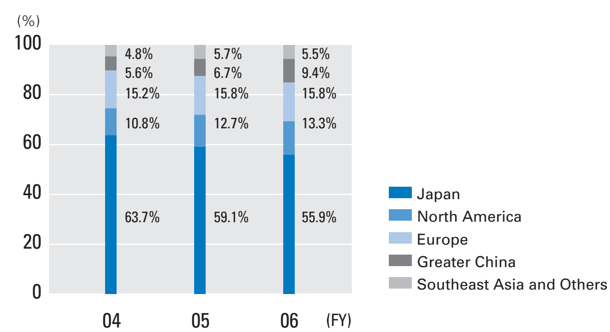
Greater China

As a result of actively investing in strengthening our marketing in China, where high growth is expected, IAB's net sales grew significantly. Also, the sales of the subsidiary of OPT contributed greatly to ECB. As a result, net sales in Greater China increased 66.4 percent over the previous fiscal year to ¥69.4 billion, and operating income increased 44.5 percent in the same period to ¥1.5 billion.

Southeast Asia and Others

IAB and ECB performed solidly as export led economies expanded. As a result, net sales in Southeast Asia increased 14.0 percent over the previous fiscal year to ¥40.7 billion, and operating income increased 7.2 percent in the same period to ¥4.0 billion.

Sales Breakdown, by Region



Financial Condition

Assets

Total assets rose ¥41.2 billion (7.0 percent) from the previous fiscal year to ¥630.3 billion. Trade notes and accounts receivable both increased ¥36.7 billion from the previous fiscal year along with the increase in net sales due to improved business results and acquisitions (refer to Note 5 on page 63), and inventory increased ¥19.2 billion in the same period. Meanwhile, land was reduced by ¥18.3 billion from the previous fiscal year due to a loss from the sale of land and buildings of the Tokyo head office, and investment securities were reduced ¥15.7 billion by such factors as establishment of a retirement benefits trust.

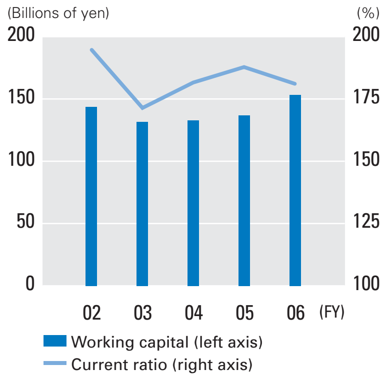
Liabilities and Shareholders' Equity

The total of current liabilities, long-term liabilities and minority interests increased ¥21.4 billion (9.5 percent) from the previous fiscal year to ¥247.5 billion. The major factors behind the increase were an increase in short-term liabilities by ¥17.4 billion from the previous fiscal year to ¥19.9 billion, and increases in other current liabilities and deferred income taxes (refer to Note 12 on page 72). In addition, interest bearing debt outstanding increased ¥18.0 billion from the previous fiscal year due to the effects of M&A activities (refer to Note 7 on page 64), to ¥21.8 billion. However, accrued retirement benefits (refer to Note 9 on page 66) decreased ¥14.3 billion (21.4 percent) from the previous fiscal year.

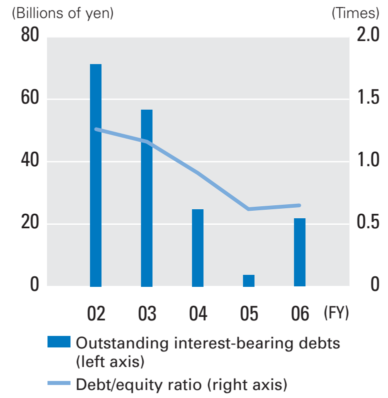
Shareholders' equity rose ¥19.9 billion from the previous fiscal year (5.5 percent) to ¥382.8 billion. While net income was ¥38.3 billion and foreign currency translation adjustments increased ¥7.9 billion, treasury stock increased ¥10.6 billion (a decrease in shareholders' equity).

As a result the shareholders' equity ratio fell 0.9 percentage points from the previous fiscal year to 60.7 percent, and the debt/equity ratio rose from 0.623 to 0.647 over the same period. In addition, net assets per share based on the number of shares outstanding at the end of the year was ¥1,660.68, compared to ¥1,548.07 at the end of the previous fiscal year.

Working Capital & Current Ratio



Outstanding Interest-Bearing Debts & Debt/Equity Ratio



Cash Flows

Cash and cash equivalents at the end of the year came to ¥43.0 billion, down ¥9.3 billion from the previous year. The situation regarding cash flows was as follows.

Cash Flow from Operating Activities

Cash flow from operating activities was ¥40.5 billion, an inflow decrease of ¥11.2 billion from the previous year. Although we recorded the contribution of the establishment of an employee retirement benefit trust, and accounts receivable and inventories increased, net income was ¥38.3 billion and depreciation and amortization, a non-cash item, also increased.

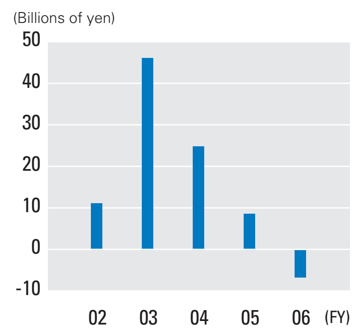
Cash Flow from Investing Activities

Cash flow from investing activities saw a net outflow of ¥47.1 billion, an increase of ¥4.1 billion over the previous year. While inflow increased due to the sale of the land and buildings belonging to the Tokyo head office, our active investment in growth opportunities and our acquisitions of OSTI and OPT led to increased expenditure overall.

Cash Flow from Financing Activities

Cash flow from financing activities saw a net outflow of ¥4.7 billion (an improvement of ¥33.6 billion over the previous year due to the impact of our repayment of borrowings in the previous year). Although short-term debt increased, our acquisition of treasury stock and payment of dividends led to a net outflow overall.

Free Cash Flow



Overview of Capital Expenditures

In the fiscal year under review most of our capital expenditures were for buildings and structures, machinery and equipment, and molds for IAB, ECB, and AEC. Total capital expenditures (including investments in intangible fixed assets and long-term prepaid expenses) were ¥44.4 billion, an 8.1 percent increase over the previous year. Looking at the results by region, capital expenditures were higher in all areas than in the previous year and in particular we made a large number of forward-looking investments in China, which is expected to achieve higher growth.

Capital expenditures by business segment were as follows. Total capital expenditures in IAB and ECB, business segments in which we are accelerating investments for growth, were centered on enhancements to manufacturing facilities and increased 37.2 percent to ¥13.7 billion, and 81.4 percent to ¥12.8 billion, respectively. On the other hand, in AEC capital expenditures were centered on enhancements to manufacturing facilities and declined 20.4 percent to ¥8.9 billion. In SSB capital expenditures were centered on upgrading manufacturing facilities and decreased 8.4 percent to ¥3.9 billion. In HCB capital expenditures were centered on enhancements to sales and administrative capacity and decreased 5.3 percent to ¥1.5 billion. Lastly in other businesses capital expenditures decreased 48.3 percent to ¥3.6 billion.

Total capital expenditures for fiscal 2007 are expected to be ¥45.0 billion, 1.2 percent higher than in fiscal 2006.

BUSINESS AND OTHER RISKS

The following risks may influence the Omron Group's management results and financial condition (including share price), and Omron believes that these items may substantially affect investor decisions. Note that items referring to the future reflect the Omron Group's forecasts and assumptions as of June 22, 2007.

(1) Economic Conditions

The primary business of the Omron Group is consumer and commercial electronic components used in the manufacture of electrical and electronic equipment, as well as control system equipment used by manufacturing sectors and in capital investment related areas. Accordingly, demand for Omron Group products is affected by economic conditions in these markets. Also, the Omron Group procures raw materials and semi-finished products in a wide variety of forms, and rapid increases in demand could result in supply shortages and/or sudden increases in prices that could halt production and/or cause sudden increases in costs.

Both in Japan and overseas, therefore, market forces affecting suppliers to, and purchasers from, the Omron Group can result in the contraction of demand for our products, thereby possibly having a negative impact on the Group's operating results and financial condition.

(2) Risks Accompanying Overseas Business Activities

The Omron Group actively conducts business activities such as production and sales in overseas markets. The Group may be subject to operating difficulties in overseas countries related to possible social unrest due to factors including differences in culture or religion, political turmoil and uncertainty in economic trends, differences in business customs in areas such as the structure of relationships with local businesses and collection of receivables, specific legal systems and investment regulations, changes in tax systems, labor shortages and problems in the labor-management relationship, epidemics, and terrorism, wars, and other political circumstances.

These risks associated with overseas operations may have a negative impact on the Omron Group's operating results and financial condition.

(3) Exchange Rate Fluctuation

The Omron Group has 121 overseas affiliated companies and continues to reinforce its business operations in overseas markets, such as China for which major market growth is anticipated in the future. The percentage of consolidated net sales accounted for by overseas sales during the fiscal year ended March 31, 2007 was 47.3 percent, and Omron expects further increases in the overseas operations ratio due to factors such as production shifts. The Omron Group seeks to hedge against exchange rate risk in such ways as balancing imports and exports denominated in foreign currencies. Exchange rate fluctuations, however, could have a negative impact on the Omron Group's operating results and financial condition.

(4) Product Defects

Based on its core corporate value of "working for the benefit of society," the Omron Group has declared maximum customer satisfaction to be one of its management philosophies and implements it by providing the best quality products and services based on the Group's motto of quality first. In particular, the Group has established strict quality control standards and built a quality control system, and develops and manufactures its products accordingly. A Group-wide quality check system is in place for the ongoing improvement of the quality of the Group's entire line of products and services.

Nevertheless, there is no assurance that all of the Group's products are without defects, and that recalls will not occur in the future. Large-scale recalls and/or product defects resulting in liability-related damages could impose huge costs, severely influence evaluations of the Omron Group, and result in reduced sales. Such events could exert a negative impact on the Group's operating results and financial condition.

In addition, to respond to an EU directive banning the use of lead, cadmium and certain other chemical substances in electric and electronic products in the European Union from July 2006, the Omron Group, in cooperation with its suppliers, is in the process of investigating the status of regulated chemical substances in all of the components and materials the Group uses, and is accelerating efforts to switch to substitute components and materials that do not contain regulated chemical substances with a view to completely eliminating regulated substances from all the Group's products throughout the world in order to make them environmentally friendly products. However, delays in the switchover beyond customer deadlines due to a late response by suppliers in providing substitute components and other factors could result in liability-related damages or a violation of the EU directive, which could have a negative impact on the Omron Group's operating results and financial condition.

5) Research and Development Activities

Based on a policy of securing a balance between growth and income, the Omron Group invests aggressively in R&D as part of its technology-centered business operations. As a result, the R&D expenses ratio remains at approximately 7 percent.

The Omron Group strives to increase the new product contribution ratio by reflecting such considerations as market needs in its R&D themes and goals. However, factors such as delays in R&D or insufficient technological capabilities that result in a decrease in the R&D new product contribution ratio could have a negative impact on the Omron Group's operating results and financial condition.

(6) Information Leakage

The Omron Group acquires personal information and classified information of customers through its business processes and acquires important information in the course of business. The Omron Group is taking steps to reinforce control over the information the Group handles and to further improve employees' information literacy, with the goal of preventing external entry into its internal information systems and misappropriation by third parties resulting from theft or loss of that information.

Unanticipated leakage of internal information, however, due for example to invasion of internal information systems using technology exceeding implemented security levels, could exert a negative impact on the Omron Group's operating results and financial condition.

(7) Risks Associated with Patent Rights and Other Intellectual Property Rights

The Omron Group has accumulated technology and expertise allowing it to differentiate its products from those of its competitors. However, it is impossible to completely protect all of the Group's intellectual property consisting of proprietary technology and expertise, due to legal restrictions in specific regions, including China, and conditions that allow only limited protection. At present, the Omron Group is working on intellectual property protection against imitation products, through such measures as the placement of full-time personnel (including local staff) in Shanghai. However, it is possible that the Group will not be able to completely prevent third parties from using its intellectual property in the manufacture of imitation products.

In China, skills in the methods needed to manufacture and sell imitations of the Omron Group's products improve each year, and organizations that manufacture and market counterfeit products have become extremely troublesome. The circulation of low-quality counterfeits that fraudulently use the Omron Group brand in Asia, including China, could damage trust in the Omron Group's products and the Group's brand image, and could exert a negative impact on the Omron Group's operating activities.

Omron has always focused on managing its brands. Recently, however, it has discovered that several overseas businesses and organizations are using domain names similar to Omron's. Omron has identified some of these and is responding with measures including issuing warning notices.

However, although Omron is monitoring the registration of illegal domain names on a global level and on a daily basis, it is difficult to identify and deal with all businesses and organizations registering and using similar domain names, and there is a danger that such entities will resort to unethical business practices such as the use of identical or similar domain names which could damage the Group's reputation. This is not limited to the problem of imitation products and domain names; when exercising our intellectual property rights, including the granting or assigning of licenses for the intellectual property of the Omron Group, disputes could arise with third parties, such as oppositional tactics from the party which is subject to the exercise of rights.

For its R&D and design, the Omron Group uses a dedicated system to conduct surveys of technologies in the public domain and those of other companies. However, because Group products cover a diverse range of fields in which there are many patents and other intellectual property rights, and in which the number of new patents and intellectual property rights is constantly growing, the possibility exists that a third party could make a claim against the Group with respect to a specific product or part. The Omron Group is working to improve employee morale through measures such as revising its employee invention compensation policy in line with revisions to Japan's Patent Law and introducing a new award system. However, disputes could arise with respect to the value of an invention with inventors who have retired from the Group, and this could exert a negative impact on the Omron Group's operating results and financial condition.

(8) Natural Disasters

Because of the possibility of reduction of production capability, temporary disruption of distribution and sales routes, or other consequences of a natural disaster, fire or other calamity, including a large-scale earthquake in areas such as Tokai and Tonankai or directly below the Tokyo area, the Omron Group has identified risks and implemented the necessary safety measures and measures for continuation and early recovery of its businesses.

However, the Omron Group's operating bases are located in Japan and around the world, and it is impossible to avoid all risks due to a natural disaster, fire or other calamity. As a result, a natural disaster, fire or other calamity could exert a negative impact on the Omron Group's operating results and financial condition.

CONSOLIDATED BALANCE SHEETS

OMRON Corporation and Subsidiaries
March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 2)
ASSETS	**2007**	2006	**2007**
Current assets:			
Cash and cash equivalents	**¥ 42,995**	¥ 52,285	**$ 364,364**
Notes and accounts receivable - trade	**175,700**	139,001	**1,488,983**
Allowance for doubtful receivables	**(2,297)**	(2,653)	**(19,466)**
Inventories (Note 3)	**94,109**	74,958	**797,534**
Deferred income taxes (Note 12)	**19,985**	18,571	**169,364**
Other current assets	**11,567**	10,151	**98,026**
Total current assets	**342,059**	292,313	**2,898,806**
Property, plant and equipment:			
Land	**28,271**	46,571	**239,585**
Buildings	**125,227**	117,414	**1,061,246**
Machinery and equipment	**175,398**	159,254	**1,486,423**
Construction in progress	**6,389**	8,180	**54,144**
Total	**335,285**	331,419	**2,841,398**
Accumulated depreciation	**(175,970)**	(163,802)	**(1,491,271)**
Net property, plant and equipment	**159,315**	167,617	**1,350,127**
Investments and other assets:			
Investments in and advances to affiliates	**16,677**	16,135	**141,331**
Investment securities (Note 4)	**46,770**	62,477	**396,356**
Leasehold deposits	**8,650**	8,553	**73,305**
Deferred income taxes (Note 12)	**17,293**	15,892	**146,551**
Other (Note 6)	**39,573**	26,074	**335,364**
Total investments and other assets	**128,963**	129,131	**1,092,907**
Total	**¥ 630,337**	¥ 589,061	**$ 5,341,840**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 2) 2007
Current liabilities:			
Short-term debt (Note 7)	¥ **19,868**	¥ 2,468	$ **168,373**
Notes and accounts payable - trade	**91,543**	85,224	**775,788**
Accrued expenses	**32,548**	28,683	**275,831**
Income taxes payable	**11,467**	12,288	**97,178**
Other current liabilities (Note 12)	**33,170**	26,701	**281,102**
Current portion of long-term debt (Note 7)	**264**	296	**2,237**
Total current liabilities	**188,860**	155,660	**1,600,509**
Long-term debt (Note 7)	**1,681**	1,049	**14,246**
Deferred income taxes (Note 12)	**2,006**	673	**17,000**
Termination and retirement benefits (Note 9)	**52,700**	67,046	**446,611**
Other long-term liabilities	**830**	571	**7,034**
Minority interests in subsidiaries	**1,438**	1,125	**12,186**
Shareholders' equity (Note 10):			
Common stock, no par value:			
Authorized: 487,000,000 shares			
Issued: 249,121,372 shares	**64,100**	64,100	**543,220**
Capital surplus	**98,828**	98,724	**837,525**
Legal reserve	**8,256**	8,082	**69,966**
Retained earnings	**258,057**	227,791	**2,186,924**
Accumulated other comprehensive loss (Note 16)	**(3,013)**	(2,971)	**(25,534)**
Treasury stock, at cost – 18,599,842 shares in 2007 and 14,676,607 shares in 2006	**(43,406)**	(32,789)	**(367,847)**
Total shareholders' equity	**382,822**	362,937	**3,244,254**
Total	**¥ 630,337**	¥ 589,061	**$ 5,341,840**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

OMRON Corporation and Subsidiaries
Years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2007	2006	2005	**2007**
Net sales	**¥ 736,651**	¥ 626,782	¥ 608,588	**$ 6,242,805**
Costs and expenses:				
Cost of sales	**452,452**	389,368	358,817	**3,834,339**
Selling, general and administrative expenses	**168,135**	161,310	144,219	**1,424,873**
Research and development expenses	**52,028**	55,315	49,441	**440,915**
Subsidy from the government (Note 9)	**—**	(41,339)	—	**—**
Other expenses (income), net (Note 11)	**(2,252)**	(2,717)	2,080	**(19,085)**
Total	**670,363**	561,937	554,557	**5,681,042**
Income before income taxes, minority interests, equity in loss of affiliates and cumulative effect of accounting change	**66,288**	64,845	54,031	**561,763**
Income taxes (Note 12)	**26,418**	27,238	22,108	**223,881**
Income before minority interests, equity in loss of affiliates and cumulative effect of accounting change	**39,870**	37,607	31,923	**337,882**
Minority interests	**238**	150	264	**2,017**
Equity in loss of affiliates	**1,352**	493	1,483	**11,458**
Income before cumulative effect of accounting change	**38,280**	36,964	30,176	**324,407**
Cumulative effect of accounting change, net of tax (Note 9)	**—**	(1,201)	—	**—**
Net income	**¥ 38,280**	¥ 35,763	¥ 30,176	**$ 324,407**

	Yen			U.S. dollars (Note 2)
	2007	2006	2005	**2007**
Per share data (Note 14):				
Income before cumulative effect of accounting change				
Basic	**¥ 165.0**	¥ 156.2	¥ 126.5	**$ 1.40**
Diluted	**164.9**	156.1	124.8	**1.40**
Net income				
Basic	**165.0**	151.1	126.5	**1.40**
Diluted	**164.9**	151.1	124.8	**1.40**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

OMRON Corporation and Subsidiaries
Years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2007	2006	2005	**2007**
Net income	**¥ 38,280**	¥ 35,763	¥ 30,176	**$ 324,407**
Other comprehensive income (loss), net of tax (Note 16):				
Foreign currency translation adjustments:				
Foreign currency translation adjustments arising during the year	**7,907**	9,201	5,071	**67,008**
Reclassification adjustment for the portion realized in net income	**6**	—	—	**51**
Net change in foreign currency translation adjustments during the year	**7,913**	9,201	5,071	**67,059**
Minimum pension liability adjustments	**1,658**	19,940	4,115	**14,051**
Unrealized gains (losses) on available-for-sale securities:				
Unrealized holding gains (losses) arising during the year	**(560)**	10,905	1,274	**(4,746)**
Reclassification adjustment for losses on impairment realized in net income	**85**	287	13	**720**
Reclassification adjustment for net gains on sales realized in net income	**(475)**	(2,430)	(465)	**(4,025)**
Reclassification adjustment for net gains on contribution of securities to retirement benefit trust realized in net income	**(5,983)**	—	—	**(50,703)**
Net unrealized gains (losses)	**(6,933)**	8,762	822	**(58,754)**
Net gains (losses) on derivative instruments:				
Net losses on derivative instruments designated as cash flow hedges during the year	**(1,208)**	(1,282)	(1,004)	**(10,237)**
Reclassification adjustment for net losses realized in net income	**1,172**	1,417	546	**9,932**
Net gains (losses)	**(36)**	135	(458)	**(305)**
Other comprehensive income	**2,602**	38,038	9,550	**22,051**
Comprehensive income	**¥ 40,882**	¥ 73,801	¥ 39,726	**$ 346,458**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

OMRON Corporation and Subsidiaries
Years ended March 31, 2007, 2006 and 2005

	Number of common shares issued	Millions of yen					
		Common stock	Capital surplus	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock
Balance, April 1, 2004	249,109,236	¥ 64,082	¥ 98,705	¥ 7,450	¥ 175,296	¥ (50,559)	¥ (20,264)
Net income					30,176		
Cash dividends, ¥24 per share					(5,713)		
Transfer to legal reserve				199	(199)		
Other comprehensive income						9,550	
Acquisition of treasury stock							(3,065)
Sale of treasury stock			3				16
Conversion of convertible bonds	12,136	18	19				1
Exercise of stock options			(1)		(9)		105
Balance, March 31, 2005	249,121,372	64,100	98,726	7,649	199,551	(41,009)	(23,207)
Net income					35,763		
Cash dividends, ¥30 per share					(7,078)		
Transfer to legal reserve				433	(433)		
Other comprehensive income						38,038	
Acquisition of treasury stock							(10,075)
Sale of treasury stock			1				2
Exercise of stock options			(3)		(12)		491
Balance, March 31, 2006	249,121,372	64,100	98,724	8,082	227,791	(2,971)	(32,789)
Net income					**38,280**		
Cash dividends, ¥34 per share					**(7,839)**		
Transfer to legal reserve				**174**	**(174)**		
Other comprehensive income						**2,602**	
Adjustment to initially apply SFAS No.158 (Note 9)						**(2,644)**	
Acquisition of treasury stock							**(11,204)**
Sale of treasury stock			**1**				**2**
Exercise of stock options			**10**		**(1)**		**585**
Grant of stock options			**93**				
Balance, March 31, 2007	**249,121,372**	**¥ 64,100**	**¥ 98,828**	**¥ 8,256**	**¥ 258,057**	**¥ (3,013)**	**¥ (43,406)**

	Thousands of U.S. dollars (Note 2)					
	Common stock	Capital surplus	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock
Balance, March 31, 2006	$ 543,220	$ 836,644	$ 68,491	$ 1,930,432	$ (25,178)	$ (277,873)
Net income				**324,407**		
Cash dividends, $0.29 per share				**(66,432)**		
Transfer to legal reserve			**1,475**	**(1,475)**		
Other comprehensive income					**22,051**	
Adjustment to initially apply SFAS No.158 (Note 9)					**(22,407)**	
Acquisition of treasury stock						**(94,949)**
Sale of treasury stock		**8**				**17**
Exercise of stock options		**85**		**(8)**		**4,958**
Grant of stock options		**788**				
Balance, March 31, 2007	**$ 543,220**	**$ 837,525**	**$ 69,966**	**$ 2,186,924**	**$ (25,534)**	**$ (367,847)**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

OMRON Corporation and Subsidiaries

Years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2007	2006	2005	**2007**
Operating activities:				
Net income	**¥ 38,280**	¥ 35,763	¥ 30,176	**$ 324,407**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	**33,923**	30,825	28,642	**287,483**
Net loss on sales and disposals of property, plant and equipment	**6,445**	42	918	**54,619**
Loss on impairment of property, plant and equipment	**1,441**	—	614	**12,212**
Net gain on sales of investment securities	**(954)**	(4,302)	(987)	**(8,085)**
Loss on impairment of investment securities and other assets	**682**	757	366	**5,780**
Bad debt expenses	**—**	—	140	**—**
Subsidy from the government	**—**	(41,339)	—	**—**
Gain on contribution of securities to retirement benefit trust	**(10,141)**	—	—	**(85,941)**
Termination and retirement benefits	**(1,403)**	29,254	1,956	**(11,890)**
Deferred income taxes	**3,887**	3,962	1,715	**32,941**
Minority interests	**238**	150	264	**2,017**
Equity in loss of affiliates	**1,352**	493	1,483	**11,458**
Cumulative effect of accounting change	**—**	1,201	—	**—**
Net gain on sales of business entities	**—**	(194)	—	**—**
Changes in assets and liabilities:				
Notes and accounts receivable - trade, net	**(19,773)**	(9,629)	(2,762)	**(167,568)**
Inventories	**(13,955)**	(2,098)	(1,964)	**(118,263)**
Other assets	**2,248**	(560)	934	**19,051**
Notes and accounts payable - trade	**(5,674)**	7,079	(4,908)	**(48,085)**
Income taxes payable	**(2,244)**	(685)	2,423	**(19,017)**
Accrued expenses and other current liabilities	**6,480**	1,411	2,114	**54,915**
Other, net	**(293)**	(431)	(48)	**(2,483)**
Total adjustments	**2,259**	15,936	30,900	**19,144**
Net cash provided by operating activities	**40,539**	51,699	61,076	**343,551**
Investing activities:				
Proceeds from sales or maturities of investment securities	**1,643**	6,830	1,867	**13,923**
Purchase of investment securities	**(2,108)**	(1,294)	(267)	**(17,865)**
Capital expenditures	**(44,689)**	(40,560)	(38,579)	**(378,720)**
Decrease (increase) in leasehold deposits	**(9)**	161	221	**(76)**
Proceeds from sales of property, plant and equipment	**17,930**	1,981	4,343	**151,949**
Acquisition of minority interests	**(15)**	(200)	(515)	**(127)**
Decrease (increase) in investment in and loans to affiliates	**(1,189)**	251	(1,233)	**(10,076)**
Proceeds from sale of business entities, net	**—**	(544)	(1,111)	**—**
Payment for acquisition of business entities, net	**(18,638)**	(9,645)	(776)	**(157,949)**
Net cash used in investing activities	**(47,075)**	(43,020)	(36,050)	**(398,941)**
Financing activities:				
Net borrowings (repayments) of short-term debt	**13,812**	(11,813)	(3,860)	**117,051**
Proceeds from issuance of long-term debt	**242**	318	1,924	**2,051**
Repayments of long-term debt	**(455)**	(11,012)	(30,238)	**(3,856)**
Dividends paid by the Company	**(7,680)**	(6,190)	(5,611)	**(65,085)**
Dividends paid to minority interests	**(9)**	(28)	(59)	**(76)**
Acquisition of treasury stock	**(11,204)**	(10,075)	(2,954)	**(94,949)**
Sale of treasury stock	**3**	3	19	**25**
Exercise of stock options	**594**	477	95	**5,034**
Net cash used in financing activities	**(4,697)**	(38,320)	(40,684)	**(39,805)**
Effect of exchange rate changes on cash and cash equivalents	**1,943**	1,307	1,218	**16,466**
Net decrease in cash and cash equivalents	**(9,290)**	(28,334)	(14,440)	**(78,729)**
Cash and cash equivalents at beginning of the year	**52,285**	80,619	95,059	**443,093**
Cash and cash equivalents at end of the year	**¥ 42,995**	¥ 52,285	¥ 80,619	**$ 364,364**

See notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Nature of Operations

OMRON Corporation (the "Company") is a multinational manufacturer of automation components, equipment and systems with advanced computer, communications and control technologies. The Company conducts business in over 30 countries around the world and strategically manages its worldwide operations through 5 regional management centers in Japan, North America, Europe, Asia-Pacific and China. Products, classified by type and market, are organized into five business segments and one business development group, as described below.

Industrial Automation Business manufactures and sells control components and systems including programmable logic controllers, sensors and switches used in automatic systems in industry. In the global market, the Company offers many services, such as those involving labor-saving automation, environmental protection, safety improvement, and inspection-automization solutions for highly developed production systems.

Electronic Components Business manufactures and sells electric and electronic components found in such consumer goods as home appliances as well as such business equipment as telephone systems, vending machines and office equipment.

Automotive Electronic Components Business develops and produces automotive electronic components and other components for automobiles and automotive electronic components manufacturers throughout the world.

Social Systems Solutions Business encompasses the sale of card authorization terminals mainly for the domestic markets. Passing gates, automated ticket machines, electronic panels and terminal displays for traffic information and monitoring purposes are also supplied for the domestic market.

Healthcare Business sells blood pressure monitors, digital thermometers, body-fat monitors, nebulizers and infra-red therapy devices aimed at both the consumer and institutional markets.

Business Development Group consists of businesses with high growth potential. The group provides the peripheral equipment used in office automation equipment, modems, terminal adapters, scanners and uninterrupted power supplies.

Basis of Financial Statements

The accompanying consolidated financial statements, stated in Japanese yen, include certain adjustments, not recorded on the books of account, to present these statements in accordance with accounting principles generally accepted in the United States of America, except for the omission of segment information required by Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information." Certain reclassifications have been made to amounts previously reported in order to conform to 2007 classifications.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries (together the "Companies"). All significant intercompany accounts and transactions have been eliminated.

Investments in which the Companies have a 20% to 50% interest (affiliates) are accounted for using the equity method.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

Cash equivalents consist of highly liquid investments with original maturities of three months or less, including time deposits, commercial paper, securities purchased with resale agreements and money market instruments.

Allowance for Doubtful Receivables

An allowance for doubtful receivables is established in amounts considered to be appropriate based primarily upon the Companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

Marketable Securities and Investments

The Companies classify all of their marketable debt and equity securities as available-for-sale. Available-for-sale securities are carried at market value with the corresponding recognition of net unrealized holding gains and losses as a separate component of accumulated other comprehensive income, net of related taxes, until recognized. If necessary, individual securities classified as available-for-sale are reduced to fair value by a charge to income in the period in which the decline is deemed to be other than temporary. The Companies principally consider that an other-than-temporary impairment has occurred when the decline in fair value below the carrying value continues for over nine consecutive months. The Companies may also consider other factors, including their ability and intent to hold the applicable investment securities until maturity, and the severity of the decline in fair value.

Other investments are stated at the lower of cost or estimated net realizable value. The cost of securities sold is determined on the average cost basis.

Inventories

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.

Property, Plant and Equipment

Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment has been computed principally on a declining balance method based upon the estimated useful lives of the assets. The estimated useful lives primarily range from 3 to 50 years for buildings and from 2 to 15 years for machinery and equipment.

Goodwill and Other Intangible Assets

The Companies account for its goodwill and other intangible assets in accordance with SFAS No.142, "Goodwill and Other Intangible Assets," which requires that goodwill no longer be amortized, but instead tested for impairment at least annually. SFAS No.142 also requires recognized intangible assets be amortized over their respective estimated useful lives and reviewed for impairment. Any recognized intangible asset determined to have an indefinite useful life is not to be amortized, but instead tested for impairment until its life is determined to no longer be indefinite.

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value. Assets to be disposed of other than by sale are considered held and used until disposed of. Assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less costs to sell.

Advertising Costs

Advertising costs are charged to earnings as incurred. Advertising expense was ¥10,315 million ($87,415 thousand), ¥10,290 million and ¥8,718 million for the years ended March 31, 2007, 2006 and 2005, respectively.

Shipping and Handling Charges

Shipping and handling charges were ¥8,851 million ($75,008 thousand), ¥7,627 million and ¥7,720 million for the years ended March 31, 2007, 2006 and 2005, respectively, and are included in selling, general and administrative expenses in the consolidated statements of income.

Termination and Retirement Benefits

Termination and retirement benefits are accounted for in accordance with SFAS No. 87, "Employers' Accounting for Pensions" and SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" based on the fiscal year-end fair value of plan assets and the projected benefit obligations of employees, and are disclosed in accordance with SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits" and SFAS No. 158. The provision for termination and retirement benefits includes amounts for directors and corporate auditors of the Company.

The Company and certain of its domestic subsidiaries previously used December 31 as the measurement date for projected benefit obligation and plan assets of the termination and retirement benefits. During the year ended March 31, 2006, the companies changed the measurement date to March 31. The purpose of this change was to enable more timely reflection of factors, such as the effect of plan amendments and fluctuation of number of employees in accounting for the termination and retirement benefits, in the projected benefit obligation and retirement benefit expense.

A cumulative effect (net of tax) of this change was recognized in the consolidated statement of income for the year ended March 31, 2006, which reduced net income for the period by ¥1,201 million.

On March 31, 2007, the Companies adopted the recognition and disclosure provisions of SFAS No. 158.

SFAS No. 158 required the Companies to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of their pension plans in the March 31, 2007 consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income (loss) as pension liability adjustments. Before adoption of SFAS No. 158, an additional minimum pension liability was recognized based on a plan's accumulated benefit obligation (projected benefit obligation, less future compensation increase), pursuant to SFAS No. 87. The incremental effects of adopting the provisions of SFAS No. 158 on the accompanying consolidated balance sheet at March 31, 2007 are presented in the following table.

	Millions of yen		
	Before Application of SFAS No.158	Adjustments	After Application of SFAS No.158
Termination and retirement benefits	**¥ (48,219)**	**¥ (4,481)**	**¥ (52,700)**
Deferred income taxes (Investments and other assets)	**15,456**	**1,837**	**17,293**
Accumulated other comprehensive loss	**(369)**	**(2,644)**	**(3,013)**

	Thousands of U.S. dollars		
	Before Application of SFAS No.158	Adjustments	After Application of SFAS No.158
Termination and retirement benefits	**$ (408,635)**	**$ (37,975)**	**$ (446,610)**
Deferred income taxes (Investments and other assets)	**130,983**	**15,568**	**146,551**
Accumulated other comprehensive loss	**(3,127)**	**(22,407)**	**(25,534)**

Income Taxes

Deferred income taxes reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting amounts. Future tax benefits, such as net operating loss carryforwards and tax credit carryforwards, are recognized to the extent that such benefits are more likely than not to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company and certain domestic subsidiaries compute current income taxes based on the consolidated taxable income as permitted by Japanese tax regulations for the year beginning after April 1, 2006.

Product Warranties

A liability for the estimated warranty related cost is established at the time revenue is recognized and is included in other current liabilities. The liability is established using historical information including the nature, frequency, and average cost of warranty claims.

Derivatives

Derivative instruments and hedging activities are accounted for in accordance with SFAS No.133, "Accounting for Derivative Instruments and Hedging Activities," SFAS No.138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No.133," and SFAS No.149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." These standards establish accounting and reporting standards for derivative instruments and for hedging activities, and require that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value.

For foreign exchange forward contracts and foreign currency options, on the date the derivative contract is entered into, the Companies designate the derivative as a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge or "foreign currency" hedge). The Companies formally document all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash flow or foreign currency hedges to specific assets and liabilities on the consolidated balance sheet or to specific firm commitments or forecasted transactions. Based on the Companies' policy, all foreign exchange forward contracts and foreign currency options entered into must be highly effective in offsetting changes in cash flows of hedged items.

Changes in fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow or foreign currency hedge are recorded in other comprehensive income (loss), until earnings are affected by the variability in cash flows of the designated hedged item.

Cash Dividends

Cash dividends are reflected in the consolidated financial statements at proposed amounts in the year to which they are applicable, even though payment is not approved by shareholders until the annual general meeting of shareholders held early in the following fiscal year. Resulting dividends payable are included in Other current liabilities in the consolidated balance sheets.

Revenue Recognition

The Companies recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred and title and risk of loss has transferred, the sales price is fixed or determinable, and collectibility is probable. These criteria are met when products are received by customers or services are performed.

Stock-Based Compensation

The Companies applied revised SFAS No. 123, "Share Based Payment," and recognized a stock-based compensation cost measured by the fair value method. For the years ended March 31, 2006 and 2005, the Companies applied APB Opinion No. 25, "Accounting for Stock Issued to Employees," and recognized a stock-based compensation cost measured by the intrinsic value method. The following table illustrates the effect on net income and net income per share if the Companies had applied the fair value method to stock-based compensation cost.

	Millions of yen (except per share data)	
	2006	2005
Net income as reported	¥ 35,763	¥ 30,176
Deduct:		
Total stock-based employee compensation expense determined under fair value based method for all awards	73	101
Pro forma net income	¥ 35,690	¥ 30,075
Net income per share (yen)		
Basic - as reported	¥ 151.1	¥ 126.5
Basic - pro forma	150.8	126.1
Diluted - as reported	151.1	124.8
Diluted - pro forma	150.7	124.3

New Accounting Standards

In June 2006, the FASB ratified the Emerging Issue Task Force ("EITF") consensus on EITF Issue 06-2, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43." EITF Issue 06-2 provides guidance for an accrual of compensated absences that require a minimum service period but have no increase in the benefit even with additional years of service. EITF Issue 06-2 is effective for fiscal years beginning after December 15, 2006. The adoption of EITF Issue 06-2 will not have a material impact on the Companies' consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No.109". FIN No. 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Companies do not expect the adoption of FIN No. 48 will have a material impact on the Companies' consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 157 will not have a material impact on the Companies' consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." SFAS No. 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, "postretirement benefit plans") to recognize the funded status of their postretirement benefit plans in the consolidated balance sheet, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end consolidated balance sheet, and provide additional disclosures. On March 31, 2007, the Company adopted the recognition and disclosure provisions of SFAS No. 158. The effect of adopting SFAS No. 158 on the Company's financial condition at March 31, 2007 has been included in the accompanying consolidated financial statements. SFAS No. 158's provisions regarding the change in the measurement date of postretirement benefit plans did not have a material impact on the Company's consolidated results of operations and financial condition as the Company already uses a measurement date of March 31 for the majority of its plans.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115." SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 will not have a material impact on the Companies' consolidated financial statements.

2. Translation into United States Dollars

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for convenience of the readers outside of Japan and has been made at the rate of ¥118 to $1, the approximate rate of exchange at March 31, 2007. Such translation should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at the above or any other rate.

3. Inventories

Inventories at March 31 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Finished products	**¥ 53,331**	¥ 40,613	**$ 451,958**
Work-in-process	**14,043**	14,286	**119,008**
Materials and supplies	**26,735**	20,059	**226,568**
Total	**¥ 94,109**	¥ 74,958	**$ 797,534**

4. Marketable Securities and Investments

Available-for-sale securities are recorded at fair value, with unrealized gains and losses excluded from income and reported in other comprehensive income (loss), net of tax. Cost, gross unrealized holding gains and losses and fair value of securities, excluding equity securities with no readily determinable public market value, by major security type at March 31 were as follows:

	Millions of yen							
	2007				2006			
	Cost (*)	Gross unrealized gains	Gross unrealized losses	Fair value	Cost (*)	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale securities :								
Debt securities	¥ 2,559	¥ 510	¥ —	¥ 3,069	¥ 1,067	¥ 413	¥ —	¥ 1,480
Equity securities	16,063	22,351	(12)	38,402	22,302	33,770	—	56,072
Total available-for-sale securities	¥ 18,622	¥ 22,861	¥ (12)	¥ 41,471	¥ 23,369	¥ 34,183	¥ —	¥ 57,552

	Thousands of U.S. dollars			
	2007			
	Cost (*)	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale securities :				
Debt securities	$ 21,686	$ 4,322	$ —	$ 26,008
Equity securities	136,127	189,415	(101)	325,441
Total available-for-sale securities	$ 157,813	$ 193,737	$ (101)	$ 351,449

(*) Cost represents amortized cost for debt securities and acquisition cost for equity securities.

Maturities of debt securities classified as available-for-sale at March 31 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2007		2006		2007	
	Cost	Fair value	Cost	Fair value	Cost	Fair value
Due after one year through five years	¥ 1,059	¥ 1,569	¥ 1,067	¥ 1,480	$ 8,974	$ 13,296
Due over five years	¥ 1,500	¥ 1,500	¥ —	¥ —	$ 12,712	$ 12,712

Gross unrealized holding losses and fair value of certain available-for-sale, equity securities, aggregated by length of time that such securities have been in a continuous unrealized loss position at March 31 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2007		2006		2007	
	Fair value	Gross unrealized holding losses	Fair value	Gross unrealized holding losses	Fair value	Gross unrealized holding losses
Less than 12 months						
Equity securities	¥ 312	¥ (12)	¥ —	¥ —	$ 2,644	$ (101)

Aggregate cost of non-marketable equity securities accounted for under the cost method totaled ¥5,299 million ($44,907 thousand) and ¥4,925 million at March 31, 2007 and 2006, respectively. Investments with an aggregate cost of ¥5,279 million ($44,737 thousand) were not evaluated for impairment because (a) the Companies did not estimate the fair value of those investments as it was not practicable to do so and (b) the Companies did not identify any events or changes in circumstances that might have had a significant adverse effect on the fair value of those investments.

Losses on impairment of available-for-sale securities recognized to reflect declines in market value considered to be other than temporary were ¥144 million ($1,220 thousand), ¥487 million and ¥22 million for the years ended March 31, 2007, 2006 and 2005, respectively.

Proceeds from sales of available-for-sale securities were ¥976 million ($8,271 thousand), ¥6,511 million and ¥1,638 million for the years ended March 31, 2007, 2006 and 2005, respectively.

Gross realized gains on sales were ¥805 million ($6,822 thousand), ¥4,119 million and ¥788 million for the years ended March 31, 2007, 2006 and 2005, respectively.

There were no gross realized losses on sales for the years ended March 31, 2007, 2006 and 2005.

The fair value of available-for-sale securities contributed to a retirement benefit trust was ¥16,019 million ($135,754 thousand) and the gain on contribution was ¥10,141 million ($85,941 thousand) for the year ended March 31, 2007.

5. Acquisition

In June 2005, OMRON Healthcare Co., Ltd., a subsidiary of the Company, acquired 100% of the issued common stock of Colin Medical Technology Corporation (now OMRON Colin Co., Ltd., "OHK") for cash in the aggregate amount of ¥8,943 million.

This acquisition was to expand healthcare business, to obtain synergies with OHK and to create preventive medicine market through the acquisition of OHK's medical devices business for healthcare professionals. The consolidated financial statements for the year ended March 31, 2006 include the operating results of OHK from the date of acquisition. The estimated fair values of the assets acquired and liabilities assumed at the date of acquisition were as follows:

	Millions of yen
Current assets	**¥ 4,339**
Property, plant and equipment	**996**
Investments and other assets (*)	**6,747**
Current liabilities	**(2,958)**
Long term liabilities	**(181)**
Net assets acquired	**¥ 8,943**

(*) Investments and other assets include acquired goodwill of ¥6,554 million.

In August 2006, the Company acquired 100% of the issued common stock of Pioneer Precision Machinery Corporation (now OMRON Precision Technology Co., Ltd., "OPT") for cash in the aggregate amount of ¥7,721 million ($65,432 thousand).
This acquisition was to expand and strengthen LCD backlights business from small-size to large-size.

The consolidated financial statements for the year ended March 31, 2007 include the operating results of OPT from the date of acquisition. The estimated fair values of the assets acquired and liabilities assumed at the date of acquisition were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥ 18,299**	**$ 155,076**
Property, plant and equipment	**3,788**	**32,101**
Investments and other assets (*)	**3,855**	**32,670**
Current liabilities	**(16,284)**	**(138,000)**
Long term liabilities	**(1,937)**	**(16,415)**
Net assets acquired	**¥ 7,721**	**$ 65,432**

(*) Investments and other assets include acquired goodwill of ¥2,179 million ($18,466 thousand).

In September 2006, OMRON Management Center of America, Inc., a subsidiary of the Company, acquired 100% of the issued common stock of Scientific Technologies Incorporated (now OMRON Scientific Technologies Incorporated, "OSTI") for cash in the aggregate amount of ¥11,667 million ($98,873 thousand).

This acquisition was to fulfill line-up of safety equipment, expand safety business and create cutting-edge equipment.

The consolidated financial statements for the year ended March 31, 2007 include the operating results of OSTI from the date of acquisition. The estimated fair values of the assets acquired and liabilities assumed at the date of acquisition were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥ 2,463**	**$ 20,873**
Property, plant and equipment	**458**	**3,881**
Investments and other assets (*)	**11,360**	**96,271**
Current liabilities	**(795)**	**(6,737)**
Long term liabilities	**(1,819)**	**(15,415)**
Net assets acquired	**¥ 11,667**	**$ 98,873**

(*) Investments and other assets include acquired goodwill of ¥7,044 million ($59,695 thousand).

6. Goodwill and Other Intangible Assets

The components of acquired intangible assets excluding goodwill at March 31, 2007 and 2006 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2007		2006		**2007**	
	Gross amount	**Accumulated amortization**	Gross amount	Accumulated amortization	**Gross amount**	**Accumulated amortization**
Intangible assets subject to amortization:						
Software	**¥ 37,141**	**¥ 21,426**	¥ 31,031	¥ 19,414	**$ 314,754**	**$ 181,576**
Other	**4,895**	**2,897**	3,583	2,408	**41,483**	**24,551**
Total	**¥ 42,036**	**¥ 24,323**	¥ 34,614	¥ 21,822	**$ 356,237**	**$ 206,127**

Aggregate amortization expense related to intangible assets was ¥5,867 million ($49,720 thousand), ¥5,235 million and ¥4,827 million for the years ended March 31, 2007, 2006 and 2005, respectively.

Estimated amortization expense for the next five years ending March 31 is as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31		
2008	**¥ 6,335**	**$ 53,686**
2009	**5,132**	**43,492**
2010	**3,482**	**29,508**
2011	**1,900**	**16,102**
2012	**793**	**6,720**

Intangible assets not subject to amortization at March 31, 2007 and 2006 were immaterial.

The carrying amount of goodwill at March 31, 2007 and 2006 and changes in its carrying amount for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Balance at beginning of year	**¥ 8,895**	¥ 1,314	**$ 75,381**
Acquisition	**10,080**	7,633	**85,424**
Foreign currency translation adjustments and other	**46**	38	**390**
Balance at end of year	**¥ 19,021**	¥ 8,895	**$ 161,195**

7. Short-Term Debt and Long-Term Debt

Short-term debt at March 31 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Commercial Paper			
The weighted average annual interest rates	**¥ 16,000**	¥ —	**$ 135,593**
2006 —			
2007 0.8%			
Unsecured debt:			
The weighted average annual interest rates	**3,868**	2,468	**32,780**
2006 3.7%			
2007 5.0%			
Total	**¥ 19,868**	¥ 2,468	**$ 168,373**

Long-term debt at March 31 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Unsecured debt:			
The weighted average annual interest rates	**¥ 120**	¥ —	**$ 1,017**
2006 —			
2007 5.4%			
Other	**1,825**	1,345	**15,466**
Total	**1,945**	1,345	**16,483**
Less portion due within one year	**264**	296	**2,237**
Long-term debt, less current portion	**¥ 1,681**	¥ 1,049	**$ 14,246**

The annual maturities of long-term debt outstanding at March 31, 2007 were as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31		
2008	**¥ 264**	**$ 2,237**
2009	**492**	**4,169**
2010	**69**	**585**
2011	**60**	**508**
2012	**62**	**525**
Thereafter	**998**	**8,459**
Total	**¥ 1,945**	**$ 16,483**

As is customary in Japan, additional security must be given if requested by a lending bank, and banks have the right to offset cash deposited with them against any debt or obligation that becomes due and, in case of default and certain other specified events, against all debt payable to the banks. The Companies have never received any such requests.

As is also customary in Japan, the Company and domestic subsidiaries maintain deposit balances with banks with which they have short- or long-term debt. Such deposit balances are not legally or contractually restricted as to withdrawal.

Total interest cost incurred and charged to expense for the years ended March 31, 2007, 2006 and 2005 amounted to ¥1,116 million ($9,458 thousand), ¥898 million and ¥1,083 million, respectively.

8. Leases

The Companies do not have any material capital lease agreements.

The Companies have operating lease agreements primarily involving offices and equipment for varying periods. Leases that expire generally are expected to be renewed or replaced by other leases. At March 31, 2007, future minimum rental payments applicable to non-cancelable leases having initial or remaining non-cancelable lease terms in excess of one year were as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31		
2008	**¥ 2,908**	**$ 24,644**
2009	**2,388**	**20,237**
2010	**1,780**	**15,085**
2011	**1,560**	**13,220**
2012	**1,367**	**11,585**
Thereafter	**10,579**	**89,653**
Total	**¥ 20,582**	**$ 174,424**

Rental expense amounted to ¥12,758 million ($108,119 thousand), ¥11,862 million and ¥11,151 million for the years ended March 31, 2007, 2006 and 2005, respectively.

9. Termination and Retirement Benefits

The Company and its domestic subsidiaries sponsor termination and retirement benefit plans which cover substantially all domestic employees. Benefits were based on the employee's years of service, with some plans considering compensation and certain other factors. The Company, effective from April 2004, and its domestic subsidiaries, effective from April 2005, introduced an amended plan to establish a new formula for determining pension benefits including a "point-based benefits system," under which benefits are calculated based on accumulated points allocated to employees each year according to their job classification and performance. If the termination is involuntary, the employee is usually entitled to greater payments than in the case of voluntary termination.

The Company and its domestic subsidiaries fund a portion of the obligations under these plans. The general funding policy is to contribute amounts computed in accordance with actuarial methods acceptable under Japanese tax law. The Company and substantially all domestic subsidiaries had a contributory termination and retirement plan which was interrelated with the Japanese government social welfare program and consisted of a substitutional potion requiring employee and employer contributions plus an additional portion established by the employers.

Periodic pension benefits required under the substitutional portion were prescribed by the Japanese Ministry of Health, Labour and Welfare, commence at age 65 and continue until the death of the surviving spouse. Benefits under the additional portion were usually paid in a lump sum at the earlier of termination or retirement although periodic payments were available under certain conditions.

In January 2003, EITF reached a final consensus on Issue 03-2, "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities." EITF Issue 03-2 addresses accounting for a transfer to the Japanese government of a substitutional portion of an Employees' Pension Fund plan.

The process of separating the substitutional portion from the corporate portion occurs in four phases. EITF Issue 03-2 requires that the separation process should be accounted for upon completion of the transfer to the government of the substitutional portion of the benefit obligation and related plan assets as the culmination of a series of steps in a single settlement transaction. Under the consensus reached, at the time the assets are transferred to the government in an amount sufficient to complete the separation process, the transaction is considered to be complete and the elimination of the entire substitutional portion of the benefit obligation would be accounted for as a settlement at that time. The difference between the obligation settled and the assets transferred to the government should be accounted for as a subsidy from the government.

The Company received the Japanese government's approval of exemption from the obligation for benefit related to future employee service on April 26, 2004 and past employee service on May 1, 2005 with respect to the substitutional portion of its termination and retirement benefit plans. The substitutional portion of the benefit obligation and related plan assets were transferred to the government on September 29, 2005. The transfer resulted in the Company recording a subsidy from the government of ¥41,339 million representing the difference between the accumulated benefit obligation of the substitutional portion and the related plan assets. Additionally, the Company recorded a reduction in net periodic benefit cost related to the derecognition of previously accrued salary progression of ¥8,870 million and a settlement loss of ¥38,294 million. The net amount of derecognition of previously accrued salary progression and settlement loss is allocated to cost of sales of ¥15,975 million, selling, general and administrative expenses of ¥8,635 million and research and development expenses of ¥4,814 million.

On March 31, 2007, the Companies adopted the recognition and disclosure provisions of SFAS No. 158. SFAS No. 158 required the Companies to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of their pension plans in the March 31, 2007 consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income (loss) as pension liability adjustments. Before adoption of SFAS No. 158, an additional minimum pension liability was recognized based on a plan's accumulated benefit obligation (projected benefit obligation, less future compensation increase), pursuant to SFAS No. 87. The effects of adopting the provisions of SFAS No. 158 on the accompanying consolidated balance sheets at March 31, 2007 are presented in Note 1. Summary of Significant Accounting Policies.

Obligations and Funded Status

The following table is the reconciliation of beginning and ending balances of the benefit obligations and the fair value of the plan assets at March 31:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Change in benefit obligation:			
Benefit obligation at beginning of year	**¥ 154,531**	¥ 246,950	**$ 1,309,585**
Service cost, less employees' contributions	**3,954**	3,979	**33,508**
Interest cost	**3,091**	3,926	**26,195**
Transfer of substitutional portion	**—**	(91,963)	**—**
Effect of change in measurement date	**—**	2,424	**—**
Plan amendments	**—**	(7,745)	**—**
Actuarial loss (gain)	**(2,521)**	2,594	**(21,364)**
Benefits paid	**(3,477)**	(3,659)	**(29,466)**
Settlement paid	**(1,049)**	(1,975)	**(8,890)**
Benefit obligation at end of year	**¥ 154,529**	¥ 154,531	**$ 1,309,568**
Change in plan assets:			
Fair value of plan assets at beginning of year	**¥ 89,287**	¥ 121,121	**756,670**
Actual return on plan assets	**2,894**	7,668	**24,525**
Transfer of substitutional portion	**—**	(41,753)	**—**
Effect of change in measurement date	**—**	1,496	**—**
Employers' contributions	**5,110**	5,573	**43,305**
Benefits paid	**(2,780)**	(2,843)	**(23,559)**
Settlement paid	**(1,049)**	(1,975)	**(8,890)**
Fair value of plan assets at end of year	**¥ 93,462**	¥ 89,287	**$ 792,051**
Fair value of assets in retirement benefit trust at beginning of year	**¥ —**	¥ —	**$ —**
Actual return on assets in retirement benefit trust	**(2,269)**	—	**(19,229)**
Employers' contributions	**16,019**	—	**135,754**
Fair value of assets in retirement benefit trust at end of year	**¥ 13,750**	¥ —	**116,525**
Funded status at end of year	**¥ (47,317)**	¥ (65,244)	**$ (400,992)**

Amounts recognized in the consolidated balance sheet at March 31, 2007 consist of:

	Millions of yen	Thousands of U.S. dollars
Termination and retirement benefit	**¥ (47,317)**	**$ (400,992)**

Amounts recognized in accumulated other comprehensive income (loss) at March 31, 2007 consist of:

	Millions of yen	Thousands of U.S. dollars
Net actuarial loss	**¥ 59,950**	**$ 508,051**
Prior service cost	**(21,561)**	**(182,720)**
	¥ 38,389	**$ 325,331**

The funded status at March 31, 2006, reconciled to the net amount recognized in the consolidated balance sheet at that date, is summarized as follows:

	Millions of yen
Funded status	¥ (65,244)
Unrecognized net actuarial loss	62,151
Unrecognized prior service benefit	(23,414)
Net amount recognized	¥ (26,507)

Amounts recognized in the consolidated balance sheet at March 31, 2006 consist of:

	Millions of yen
Termination and retirement benefit	¥ (62,672)
Accumulated other comprehensive loss (gross of tax)	36,165
Net amount recognized	¥ (26,507)

The accumulated benefit obligation at March 31 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Accumulated benefit obligation	**¥ 150,045**	¥ 151,959	**$ 1,271,568**

Components of net Periodic Benefit Cost

The expense recorded for the contributory termination and retirement plans included the following components for the years ended March 31:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Service cost, less employees' contributions	**¥ 3,954**	¥ 3,979	¥ 5,822	**$ 33,508**
Interest cost on projected benefit obligation	**3,091**	3,926	5,022	**26,195**
Expected return on plan assets	**(3,411)**	(3,620)	(4,301)	**(28,907)**
Amortization	**612**	2,336	2,565	**5,186**
Settlement loss	**—**	38,294	—	**—**
Derecognition of previously accrued salary progression	**—**	(8,870)	—	**—**
Net periodic benefit cost	**¥ 4,246**	¥ 36,045	¥ 9,108	**$ 35,982**

The unrecognized net actuarial loss and the prior service benefit are being amortized over 15 years.

The estimated net actuarial loss and prior service benefit that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost for the year ending March 31, 2008 are summarized to the right:

	Millions of yen	Thousands of U.S. dollars
Net actuarial loss	**¥ 2,479**	**$ 21,008**
Prior service cost	**(1,853)**	**(15,703)**

Measurement Date

The Company and certain of its domestic subsidiaries use March 31 as the measurement date for projected benefit obligation and plan assets of the termination and retirement benefits. During the year ended March 31, 2006, the companies changed the measurement date from December 31 to March 31. The purpose of this change was to enable more timely reflection of factors, such as the effect of plan amendments and fluctuation of number of employees in accounting for the termination and retirement benefits, in the projected benefit obligation and retirement benefit expense.

A cumulative effect (net of tax) of this change was recognized in the consolidated statement of income for the year ended March 31, 2006, which reduced net income for the period by ¥1,201 million.

Assumptions

Weighted-average assumptions used to determine benefit obligations at March 31, 2007 and 2006 are as follows:

	2007	2006
Discount rate	**2.0%**	2.0%
Compensation increase rate	**2.0%**	2.0%

Weighted-average assumptions used to termination and retirement benefit cost for the years ended March 31, 2007, 2006 and 2005 are as follows:

	2007	2006	2005
Discount rate	**2.0%**	2.0%	2.0%
Compensation increase rate	**2.0%**	2.0%	2.0%
Expected long-term rate of return on plan assets	**3.0%**	3.0%	3.0%

The expected return on plan assets is determined by estimating the future rate of return on each category of plan assets considering actual historical returns and current economic trends and conditions.

Plan assets

The Company's pension plan weighted-average asset allocation (except for assets in retirement benefit trust) by asset category is as follows:

	2007	2006
Asset Category		
Cash	**0.0%**	0.1%
Equity Securities	**21.1%**	23.9%
Debt Securities	**48.8%**	46.1%
Life insurance company general accounts	**13.8%**	14.1%
Other	**16.3%**	15.8%
Total	**100.0%**	100.0%

The assets in the retirement benefit trust at March 31, 2007 consisted of 99.7% equity securities and 0.3% other.

The Company investment policies are designed to ensure that adequate plan assets are available to provide future payments of pension benefits to eligible participants. Taking into account the expected long-term rate of return on plan assets, the Company formulates a model portfolio comprised of the optimal combination of equity and debt securities in order to produce a total return that will match the expected return on a mid-term to long-term basis.

Target allocation of plan assets is 20% equity securities, 66% debt securities and life insurance company general account and 14% other for both 2007 and 2006.

The Company evaluates the gap between expected return and actual return of invested plan assets on an annual basis to determine if such differences necessitate a revision in the model portfolio. The Company revises the model portfolio to the extent considered necessary to achieve the expected long-term rate of return on plan assets.

Equity securities include a common stock of the Company in the amounts of ¥1 million ($10 thousand) (0.00% of total domestic plan assets), and ¥11 million (0.01% of total domestic plan assets) at March 31, 2007, and 2006, respectively.

Cash Flows

Contributions

The Companies expect to contribute ¥5,178 million ($43,881 thousand) to their domestic termination and retirement benefit plans in the year ending March 31, 2008.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31		
2008	**¥ 4,492**	**$ 38,068**
2009	**5,698**	**48,288**
2010	**6,532**	**55,356**
2011	**6,883**	**58,331**
2012	**6,629**	**56,178**
2013 — 2017	**34,340**	**291,017**

Certain employees of European subsidiaries are covered by a defined benefit pension plan. The projected benefit obligation for the plan and related fair value of plan assets were ¥2,687 million ($22,771 thousand) and ¥2,555 million ($21,653 thousand), respectively, at March 31, 2007 and ¥2,812 million and ¥2,020 million, respectively, at March 31, 2006.

The Companies also have unfunded noncontributory termination plans administered by the Companies. These plans provide lump-sum termination benefits are paid at the earlier of the employee's termination or mandatory retirement age, except for payments to directors and corporate auditors which require approval by the shareholders before payment. The Companies record provisions for termination benefits sufficient to state the liability equal to the plans' vested benefits, which exceed the plans' accumulated benefit obligations.

The aggregate liability for the termination plans excluding the funded contributory termination and retirement plan in Japan, as of March 31, 2007 and 2006 was ¥5,383 million ($45,619 thousand) and ¥4,374 million, respectively. The aggregate net periodic benefit cost for such plans for the years ended March 31, 2007, 2006 and 2005 was ¥1,167 million ($9,890 thousand), ¥618 million and ¥1,241 million, respectively.

10. Shareholders' Equity.

Japanese companies are subjected to the Corporate Low.

The Corporate Law requires that all shares of common stock be issued with no par value and at least 50% of amount paid of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Corporate Law permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Corporate Law also requires that an amount equal to 10% of dividends must be appropriated as a legal reserve or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Corporate Law, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

Stock Options

The Company has authorized the grant of options to purchase common stock of the Company to certain directors and executive officers of the Company under a fixed stock option plan.

Under the above plan, the exercise price of each option exceeded the market price of the Company's common stock on the date of grant and the options expire 5 years after the date of the grant. Generally, options become fully vested and exercisable after 2 years. A summary of the Company's fixed stock option plan activity and related information is as follows:

Fixed options	Shares	yen: Weighted-average exercise price	yen: Weighted-average fair value of options granted during the year
Options outstanding at April 1, 2004	1,089,000	¥ 2,357	
Granted	219,000	2,580	¥ 194
Exercised	(51,000)	1,846	
Expired	(11,000)	1,839	
Options outstanding at March 31, 2005	1,246,000	¥ 2,421	
Granted	213,000	2,550	¥ 415
Exercised	(226,000)	2,111	
Expired	(260,000)	2,936	
Options outstanding at March 31, 2006	973,000	¥ 2,384	
Granted	**217,000**	**3,031**	**¥ 539**
Exercised	**(260,000)**	**2,284**	
Expired	**(25,000)**	**2,306**	
Options outstanding at March 31, 2007	**905,000**	**¥ 2,570**	
Options exercisable at March 31, 2007	**475,000**	**¥ 2,369**	

Fixed options	Shares	U.S. dollar: Weighted-average exercise price	U.S. dollar: Weighted-average fair value of options granted during the year
Options outstanding at March 31, 2006	973,000	$ 20.20	
Granted	**217,000**	**25.69**	**$ 4.57**
Exercised	**(260,000)**	**19.36**	
Expired	**(25,000)**	**19.54**	
Options outstanding at March 31, 2007	**905,000**	**$ 21.78**	
Options exercisable at March 31, 2007	**475,000**	**$ 20.08**	

The following summarizes information about fixed stock options at March 31, 2007:

	Shares	Weighted-average remaining contractual life	Range of exercise prices		Weighted-average exercise price	
			Yen	U.S. dollars	Yen	U.S. dollars
Options outstanding	**905,000**	**2.54 years**	**¥ 1,913 to ¥ 3,031**	**$ 16.21 to $ 25.69**	**¥ 2,570**	**$ 21.78**
Options exercisable	**475,000**	**1.44 years**	**¥ 1,913 to ¥ 2,580**	**$ 16.21 to $ 21.86**	**¥ 2,369**	**$ 20.08**

The fair value of each option grant was estimated as of the grant date using the Black-Scholes option-pricing model with the following assumptions:

	2007	2006	2005
Risk-free interest rate	**1.540%**	1.540%	0.628%
Volatility	**28.0%**	23.0%	10.0%
Dividend yield	**1.068%**	0.982%	0.783%
Expected life	**3.5years**	3.5years	3.5years

The Black-Scholes option valuation model used by the Company was developed for use in estimating the fair value of fully tradable options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. It is management's opinion that the Company's stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

Stock-based compensation cost recognized for the year ended March 31, 2007 was ¥93 million ($788 thousand). As of March 31, 2007, total compensation cost related to nonvested options and not yet recognized was ¥84 million ($712 thousand), and the weighted-average period over which it is expected to be recognized is 1.12 years. Cash received from options exercised under the plan for the year ended March 31, 2007 was ¥594 million ($5,034 thousand). When options are exercised, the Company will grant the Company's treasury stock.

11. Other Expenses (Income), net

Other expenses (income), net for the years ended March 31, 2007, 2006 and 2005 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Net loss on sales and disposals of property, plant and equipment	**¥ 6,445**	¥ 42	¥ 918	**$ 54,619**
Loss on impairment of property, plant and equipment	**1,441**	—	614	**12,212**
Business restructuring expenses	**713**	749	1,767	**6,042**
Loss on impairment of investment securities and other assets	**682**	757	366	**5,780**
Net gain on sales of investment securities	**(954)**	(4,302)	(987)	**(8,085)**
Gain on contribution of securities to retirement benefit trust	**(10,141)**	—	—	**(85,941)**
Net gain on sales of business entities	**—**	(194)	—	**—**
Interest income, net	**(729)**	(609)	(216)	**(6,178)**
Foreign exchange loss, net	**1,086**	1,306	75	**9,203**
Other, net	**(795)**	(466)	(457)	**(6,737)**
Total	**¥ (2,252)**	¥ (2,717)	¥ 2,080	**$ (19,085)**

Certain land and buildings, principally idle assets, were deemed to be impaired and written down to fair value for the year ended March 31, 2005. Also certain manufacturing assets of Automotive Electronic Components Business were deemed to be impaired and written down to fair value for the year ended March 31, 2007.

The fair value was measured by discounted cash flows expected to be generated by the assets.

12. Income Taxes

The provision for income taxes for the years ended March 31, 2007, 2006 and 2005 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Current income tax expense	**¥ 22,531**	¥ 23,276	¥ 20,393	**$ 190,941**
Deferred income tax expenses, exclusive of the following	**3,521**	3,947	2,160	**29,839**
Change in the valuation allowance	**366**	15	(445)	**3,101**
Total	**¥ 26,418**	¥ 27,238	¥ 22,108	**$ 223,881**

The Company and its domestic subsidiaries are subject to a number of taxes based on income, which in the aggregate resulted in a normal tax rate of approximately 41.0% in 2007, 2006 and 2005.

The effective income tax rates of the Companies differ from the normal Japanese statutory rates as follows for the years ended March 31:

	2007	2006	2005
Normal Japanese statutory rates	**41.0%**	41.0%	41.0%
Increase (decrease) in taxes resulting from:			
Permanently non-deductible items	**0.6**	0.9	3.0
Tax credit for research and development expenses	**(4.0)**	(3.5)	(3.4)
Losses of subsidiaries for which no tax benefit was provided	**3.7**	0.4	1.5
Difference in subsidiaries' tax rates	**(2.0)**	3.2	(0.9)
Change in the valuation allowance	**0.6**	0.0	0.9
Other, net	**0.0**	0.0	(1.2)
Effective tax rates	**39.9**	42.0	40.9

The approximate effect of temporary differences and tax credit and loss carry forwards that gave rise to deferred tax balances at March 31, 2007 and 2006 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2007		2006		**2007**	
	Deferred tax assets	**Deferred tax liabilities**	Deferred tax assets	Deferred tax liabilities	**Deferred tax assets**	**Deferred tax liabilities**
Inventory valuation	**¥ 3,776**	**¥ —**	¥ 3,418	¥ —	**$ 32,000**	**$ —**
Accrued bonuses and vacations	**5,779**	**—**	5,165	—	**48,975**	**—**
Termination and retirement benefits	**6,279**	**—**	11,534	—	**53,212**	**—**
Enterprise taxes	**756**	**—**	1,292	—	**6,407**	**—**
Intercompany profits	**3,970**	**—**	3,293	—	**33,644**	**—**
Marketable securities	**—**	**9,214**	—	13,998	**—**	**78,085**
Property, plant and equipment	**958**	**—**	808	—	**8,119**	**—**
Allowance for doubtful receivables	**1,088**	**—**	814	19	**9,220**	**—**
Minimum pension liability adjustment	**—**	**—**	14,827	—	**—**	**—**
Pension liability adjustment	**15,739**	**—**	—	—	**133,381**	**—**
Other temporary differences	**9,363**	**3,056**	9,998	3,869	**79,347**	**25,898**
Tax credit carryforwards	**4,997**	**—**	4,536	—	**42,347**	**—**
Operating loss carryforwards	**3,469**	**—**	3,089	—	**29,398**	**—**
Subtotal	**¥ 56,174**	**¥ 12,270**	¥ 58,774	¥ 17,886	**$ 476,050**	**$ 103,983**
Valuation allowance	**(8,826)**	**—**	(7,203)	—	**(74,797)**	**—**
Total	**¥ 47,348**	**¥ 12,270**	¥ 51,571	¥ 17,886	**$ 401,253**	**$ 103,983**

The total valuation allowance increased by ¥1,623 million ($13,754 thousand) in 2007 and decreased by ¥65 million in 2006.

As of March 31, 2007, certain subsidiaries had operating loss carryforwards approximating ¥9,776 million ($82,847 thousand) available for reduction of future taxable income, the majority of which expire by 2014.

The Company has not provided for Japanese income taxes on unremitted earnings of certain foreign subsidiaries to the extent that they are believed to be indefinitely reinvested. The accumulated unremitted earnings of the foreign subsidiaries which are considered to be indefinitely reinvested and for which Japanese income taxes have not been provided were ¥55,211 million ($467,890 thousand) and ¥55,311 million at March 31, 2007 and 2006, respectively. Dividends received from domestic subsidiaries are expected to be substantially free of tax.

13. Foreign Operations

Net sales and total assets of foreign subsidiaries for the years ended March 31, 2007, 2006 and 2005 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Net sales	**¥ 324,509**	¥ 256,116	¥ 220,961	**$ 2,750,076**
Total assets	**¥ 263,900**	¥ 209,038	¥ 178,038	**$ 2,236,441**

14. Per Share Data

The Company accounts for its net income per share in accordance with SFAS No. 128, "Earnings per Share." Basic net income per share has been computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during each year. Diluted net income per share reflects the potential dilution of convertible bonds and stock options, and has been computed by the if-converted method for convertible bonds and by the treasury stock method for stock options.

A reconciliation of the numerators and denominators of the basic and diluted net income per share computations is as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Income before cumulative effect of accounting change	**¥ 38,280**	¥ 36,964	¥ 30,176	**$ 324,407**
Effect of dilutive securities:				
Convertible bonds, due September 2004	**—**	—	165	**—**
Diluted income before cumulative effect of accounting change	**¥ 38,280**	¥ 36,964	¥ 30,341	**$ 324,407**

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Net income	**¥ 38,280**	¥ 35,763	¥ 30,176	**$ 324,407**
Effect of dilutive securities:				
Convertible bonds, due September 2004	**—**	—	165	**—**
Diluted income	**¥ 38,280**	¥ 35,763	¥ 30,341	**$ 324,407**

	2007	2006	2005
Weighted average common shares outstanding	**232,059,070**	236,625,818	238,505,304
Dilutive effect of:			
Convertible bonds, due September 2004	**—**	—	4,623,997
Stock options	**153,918**	131,711	76,574
Diluted common shares outstanding	**232,212,988**	236,757,529	243,205,875

15. Supplemental Information for Cash Flows

Supplemental cash flow information for the years ended March 31, 2007, 2006 and 2005 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Interest paid	**¥ 1,130**	¥ 898	¥ 1,098	**$ 9,576**
Income taxes paid	**24,591**	23,843	17,815	**208,398**
Non-cash investing and financing activities:				
Liabilities assumed in connection with capital expenditures	**2,977**	3,220	2,671	**25,229**
Fair value of securities contributed to retirement benefit trust	**16,019**	—	—	**135,754**
Stock issued due to convertible bonds	**—**	—	38	**—**
Transfer of assets and liabilities to joint venture	**—**	—	16,270	**—**

16. Other Comprehensive Income (Loss)

The change in each component of accumulated other comprehensive income (loss) for the years ended March 31, 2007, 2006 and 2005 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Foreign currency translation adjustments:				
Beginning balance	**¥ (1,353)**	¥ (10,554)	¥ (15,625)	**$ (11,466)**
Change for the year	**7,913**	9,201	5,071	**67,059**
Ending balance	**6,560**	(1,353)	(10,554)	**55,593**
Minimum pension liability adjustments:				
Beginning balance	**(21,183)**	(41,123)	(45,238)	**(179,517)**
Change for the year	**1,658**	19,940	4,115	**14,051**
Adjustment to initially apply SFAS No. 158	**19,525**	—	—	**165,466**
Ending balance	**—**	(21,183)	(41,123)	**—**
Pension liability adjustments:				
Beginning balance	**—**	—	—	**—**
Adjustment to initially apply SFAS No. 158	**(22,169)**	—	—	**(187,873)**
Ending balance	**(22,169)**	—	—	**(187,873)**
Unrealized gains (losses) on available-for-sale securities:				
Beginning balance	**19,671**	10,909	10,087	**166,703**
Change for the year	**(6,933)**	8,762	822	**(58,754)**
Ending balance	**12,738**	19,671	10,909	**107,949**
Net gains (losses) on derivative instruments:				
Beginning balance	**(106)**	(241)	217	**(898)**
Change for the year	**(36)**	135	(458)	**(305)**
Ending balance	**(142)**	(106)	(241)	**(1,203)**
Total accumulated other comprehensive loss:				
Beginning balance	**(2,971)**	(41,009)	(50,559)	**(25,178)**
Change for the year	**2,602**	38,038	9,550	**22,051**
Adjustment to initially apply SFAS No. 158	**(2,644)**	—	—	**(22,407)**
Ending balance	**¥ (3,013)**	¥ (2,971)	¥ (41,009)	**$ (25,534)**

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments for the years ended March 31, 2007, 2006 and 2005 were as follows:

	Millions of yen								
	2007			2006			2005		
	Before-tax amount	**Tax (expense) benefit**	**Net-of-tax amount**	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
Foreign currency translation adjustments:									
Foreign currency translation adjustments arising during the year	**¥ 8,248**	**¥ (341)**	**¥ 7,907**	¥ 9,458	¥ (257)	¥ 9,201	¥ 5,437	¥ (366)	¥ 5,071
Reclassification adjustment for the portion realized in net income	**6**	**—**	**6**	—	—	—	—	—	—
Net change in foreign currency translation adjustments during the year	**8,254**	**(341)**	**7,913**	9,458	(257)	9,201	5,437	(366)	5,071
Minimum pension liability adjustments	**2,811**	**(1,153)**	**1,658**	33,797	(13,857)	19,940	6,974	(2,859)	4,115
Unrealized gains (losses) on available-for-sale securities:									
Unrealized holding gains (losses) arising during the year	**(949)**	**389**	**(560)**	18,469	(7,564)	10,905	2,159	(885)	1,274
Reclassification adjustment for losses on impairment realized in net income	**144**	**(59)**	**85**	487	(200)	287	22	(9)	13
Reclassification adjustment for net gains on sales realized in net income	**(805)**	**330**	**(475)**	(4,119)	1,689	(2,430)	(788)	323	(465)
Reclassification adjustment for net gains on contribution of securities to retirement benefit trust realized in net income	**(10,141)**	**4,158**	**(5,983)**	—	—	—	—	—	—
Net unrealized gains (losses)	**(11,751)**	**4,818**	**(6,933)**	14,837	(6,075)	8,762	1,393	(571)	822
Net gains (losses) on derivative instruments:									
Net gains (losses) on derivative instruments designated as cash flow hedges during the year	**(2,047)**	**839**	**(1,208)**	(2,173)	891	(1,282)	(1,702)	698	(1,004)
Reclassification adjustment for net losses (gains) realized in net income	**1,986**	**(814)**	**1,172**	2,400	(983)	1,417	929	(383)	546
Net gains (losses) on derivative instruments	**(61)**	**25**	**(36)**	227	(92)	135	(773)	315	(458)
Other comprehensive income	**¥ (747)**	**¥ 3,349**	**¥ 2,602**	¥58,319	¥(20,281)	¥38,038	¥13,031	¥(3,481)	¥ 9,550

	Thousands of U.S. dollars		
	2007		
	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during the year	$ 69,898	$ (2,890)	$ 67,008
Reclassification adjustment for the portion realized in net income	51	—	51
Net change in foreign currency translation adjustments during the year	69,949	(2,890)	67,059
Minimum pension liability adjustments	23,822	(9,771)	14,051
Unrealized gains (losses) on available-for-sale securities:			
Unrealized holding gains (losses) arising during the year	(8,042)	3,296	(4,746)
Reclassification adjustment for losses on impairment realized in net income	1,220	(500)	720
Reclassification adjustment for net gains on sales realized in net income	(6,822)	2,797	(4,025)
Reclassification adjustment for net gains on contribution of securities to retirement benefit trust realized in net income	(85,941)	35,238	(50,703)
Net unrealized gains (losses)	(99,585)	40,831	(58,754)
Net gains (losses) on derivative instruments:			
Net gains (losses) on derivative instruments designated as cash flow hedges during the year	(17,347)	7,110	(10,237)
Reclassification adjustment for net losses (gains) realized in net income	16,830	(6,898)	9,932
Net gains (losses) on derivative instruments	(517)	212	(305)
Other comprehensive income	$ (6,331)	$ 28,382	$ 22,051

17. Financial Instrumentsand Risk Management

Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values as of March 31, 2007 and 2006, of the Companies' financial instruments.

	Millions of yen			
	2007		2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Nonderivatives:				
Long-term debt, including current portion	¥ (1,945)	¥ (1,945)	¥ (1,345)	¥ (1,345)
Derivatives:				
Included in other current assets (liabilities):				
Forward exchange contracts	(286)	(286)	(751)	(751)
Foreign currency options	47	47	36	36

	Thousands of U.S. dollars	
	2007	
	Carrying amount	Fair value
Nonderivatives:		
Long-term debt, including current portion	$ (16,483)	$ (16,483)
Derivatives:		
Included in other current assets (liabilities):		
Forward exchange contracts	(2,424)	(2,424)
Foreign currency options	398	398

The following methods and assumptions were used to estimate the fair values of each class of financial instruments for which it is practicable to estimate that value:

Nonderivatives

(1) Cash and cash equivalents, notes and accounts receivable, short-term debt and notes and accounts payable: The carrying amounts approximate fair values.

(2) Investment securities (see Note 4):
The fair values are estimated based on quoted market prices or dealer quotes for marketable securities or similar instruments. Certain equity securities included in investments have no readily determinable public market value, and it is not practicable to estimate their fair values.

(3) Long-term debt:
The fair values are estimated using present value of discounted future cash flow analysis, based on the Companies' current incremental issuing rates for similar types of arrangements.

Derivatives

The fair value of derivatives generally reflects the estimated amounts that the Companies would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains or losses of open contracts. Dealer quotes are available for most of the Companies' derivatives; otherwise, pricing or valuation models are applied to current market information to estimate fair value. The Companies do not use derivatives for trading purposes.

Derivatives and Hedging Activities

Changes in the fair value of foreign exchange forward contracts and foreign currency options designated and qualifying as cash flow hedges are reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into other expenses (income), net in the same period as the hedged items affect earnings. Substantially all of the accumulated other comprehensive income (loss) in relation to foreign exchange forward contracts at March 31, 2007 is expected to be reclassified into earnings within twelve months.

The effective portions of changes in the fair value of foreign exchange forward contracts and foreign currency options designated as cash flow hedges and reported in accumulated other comprehensive income (loss), net of the related tax effect, are losses of ¥1,208 million ($10,237 thousand) and ¥1,282 million for the years ended March 31, 2007 and 2006, respectively. The amounts, which were reclassified out of accumulated other comprehensive income (loss) into other expenses (income), net depending on their nature, net of the related tax effect, are net gains of ¥1,172 million ($9,932 thousand) and net gains of ¥1,417 million for the years ended March 31, 2007 and 2006, respectively. The amount of the hedging ineffectiveness is not material for the years ended March 31, 2007 and 2006.

Foreign exchange forward contracts and foreign currency options:

The Companies enter into foreign exchange forward contracts and combined purchased and written foreign currency option contracts to hedge foreign currency transactions (primarily the U.S. dollar and the EURO) on a continuing basis for periods consistent with their committed exposure. The terms of the currency derivatives are typically less than 10 months. The credit exposure of foreign exchange contracts are represented by the fair value of the contracts at the reporting date. Management considers the exposure to credit risk to be minimal since the counterparties are major financial institutions.

The notional amounts of contracts to exchange foreign currency outstanding at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Forward exchange contracts	**¥ 59,596**	¥ 43,521	**$ 505,051**
Foreign currency options	**¥ 2,100**	¥ 2,100	**$ 17,797**

The Companies hedge certain exposures to fluctuations in foreign currency exchange rates that occur prior to conversion of foreign currency denominated monetary assets and liabilities into the functional currency. Prior to conversion to the functional currency, these assets and liabilities are translated at currency exchange rates in effect on the balance sheet date. The effects of changes in currency exchange rates are reported in earnings and included in other expenses (income), net in the consolidated statements of income. Currency forward contracts and options designated as hedges of the monetary assets and liabilities are also marked to market rates with the resulting gains and losses reported in the consolidated statements of income.

18. Related Party Transaction

Until the year ended March 31, 2006, the Company had an operating lease agreement for its Kyoto head office, including land and a building, with a private company owned by the family of the Company's founder, which includes the Company's chairman and representative director, a director, and certain managing officers. This lease agreement had an initial non-cancelable lease term to 2020 and required a monthly rental payment of ¥106 million and a security deposit of ¥2,600 million which is refundable when the agreement expires. However, the agreement with the private company was dissolved in March 2006, because the Kyoto head office was sold to an unrelated third party. During the years ended March 31, 2006 and 2005, the Company paid ¥1,166 million and ¥1,272 million, respectively, in rental expense and the security deposit to the private company was transferred to the third party at March 31, 2006.

19. Commitments and Contingent Liabilities

The Company has commitments at March 31, 2007 of approximately ¥29,517 million ($250,144 thousand) related to contracts for outsourcing computer services through 2013. The contracts require an annual service fee of ¥6,031 million ($51,110 thousand) for the year ending March 31, 2007. The annual service fee will gradually decrease each year during the contract term to ¥4,657 million ($39,466 thousand) for 2013. The contract is cancelable at any time subject to a penalty of 15% of aggregate service fees payable for the remaining term of the contract.

The Company and certain of its subsidiaries are defendants in several pending lawsuits. However, based upon the information currently available to both the Company and its legal counsel, management of the Company believes that damages from such lawsuits, if any, would not have a material effect on the consolidated financial statements.

Concentration of Credit Risk

Financial instruments that potentially subject the Companies to concentrations of credit risk consist principally of short-term cash investments and trade receivables. The Companies place their short-term cash investments with high-credit-quality financial institutions. Concentrations of credit risk with respect to trade receivables, as approximately 56% of total sales are concentrated in Japan, are limited due to the large number of well-established customers and their dispersion across many industries. The Company normally requires customers to deposit funds to serve as security for ongoing credit sales.

Guarantees

The Company provides guarantees for bank loans of other companies. The guarantees for the other companies are made to ensure that those companies operate with less finance costs. The maximum payments in the event of default is ¥1,026 million ($8,695 thousand) at March 31, 2007. The carrying amounts of the liabilities recognized under those guarantees at March 31, 2007 were immaterial.

Bank loans of ¥574 million ($4,864 thousand) of an unaffiliated company were jointly and severally guaranteed by the Company and six other unaffiliated companies. According to an agreement between the seven companies, any loss on these guarantees are to be borne equally among the companies.

Product Warranties

The Companies issue contractual product warranties under which they generally guarantee the performance of products delivered and services rendered for a certain period or term. Changes in accrued product warranty cost for the years ended March 31, 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Balance at beginning of year	**¥ 1,678**	¥ 2,309	**$ 14,220**
Addition	**2,082**	1,586	**17,644**
Utilization	**(1,570)**	(2,217)	**(13,305)**
Balance at end of year	**¥ 2,190**	¥ 1,678	**$ 18,559**

20. Subsequent Events

1) In April 2007, OMRON Entertainment Co., Ltd., a subsidiary of the Company, had transferred all of its business to third party. As a result of this business transfer, the Company will record a gain (pre tax base) of approximately ¥5,200 million ($44,068 thousand) in the year ending March 31, 2008.

(2) On May 16, 2007, the Company's board of directors approved a resolution, which is subject to approval at the general meeting of shareholders, outlining a plan to purchase the Company's shares. The execution of the plan is at the Company's discretion with a maximum aggregate purchase of ¥10,000 million ($84,746 thousand), or 3,000,000 shares, for the period up to the date of the June 2008 general meeting of shareholders.

Deloitte.

Deloitte Touche Tohmatsu
Nakanoshima Central Tower
2-2-7, Nakanoshima, Kita-ku
Osaka-shi, Osaka 530-0005
Japan

Tel: +81 6 4560 6000
Fax: +81 6 4560 6001
www.deloitte.com/jp

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of OMRON Corporation

We have audited the accompanying consolidated balance sheets of OMRON Corporation and subsidiaries (the "Company") as of March 31, 2007 and 2006, and the related consolidated statements of income, comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2007, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Certain information required by Statement of Financial Accounting Standards No.131, "Disclosures about Segments of an Enterprise and Related Information," has not been presented in the accompanying consolidated financial statements. In our opinion, presentation concerning operating segments and other information is required for a complete presentation of the Company's consolidated financial statements.

In our opinion, except for the omission of segment information as discussed in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OMRON Corporation and subsidiaries as of March 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 20 to the financial statements, in April 2007, OMRON Entertainments Co., Ltd., a subsidiary of the Company, had transferred all of its business to a third party.

Our audits also comprehended the translation of Japanese yen amounts into United States dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2 to the consolidated financial statements. Such United States dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

Osaka, Japan
June 8, 2007

Member of
Deloitte Touche Tohmatsu

GLOBAL AND DOMESTIC NETWORK

Headquarters

Japan

Kyoto Head Office

Tel: 81-75-344-7000 Fax: 81-75-344-7001

Tokyo Head Office

Tel: 81-3-3436-7011 Fax: 81-3-3436-7035

Europe

OMRON Europe B.V. (The Netherlands)

Tel: 31-23-568-1300 Fax: 31-23-568-1391

North America

OMRON Management Center of America, Inc. (Chicago)

Tel: 1-847-884-0322 Fax: 1-847-884-1866

Asia-Pacific

OMRON Asia Pacific Pte. Ltd. (Singapore)

Tel: 65-835-3011 Fax: 65-835-2711

Greater China

OMRON (China) Co., Ltd. (Shanghai)

Tel: 86-21-5888-1666 Fax: 86-21-5888-7633/7933

Major Domestic Manufacturing, Marketing, and Research & Development Locations

Manufacturing

Mishima Systems Factory

Tel: 81-55-977-9000 Fax: 81-55-977-9080

Kusatsu Plant

Tel: 81-77-563-2181 Fax: 81-77-565-5588

Ayabe Office

Tel: 81-773-42-6611 Fax: 81-773-43-0661

Minakuchi Factory

Tel: 81-748-62-6851 Fax: 81-748-62-6854

Marketing

Osaki Office

Tel: 81-3-5435-2000 Fax: 81-3-5435-2030

Nagoya Office

Tel: 81-52-571-6461 Fax: 81-52-565-1910

Osaka Office

Tel: 81-6-6347-5800 Fax: 81-6-6347-5900

Fukuoka Office

Tel: 81-92-414-3200 Fax: 81-92-414-3201

Research & Development

Keihanna Technology Innovation Center

Tel: 81-774-74-2000 Fax: 81-774-74-2001

Komaki Automotive Electronics Office

Tel:81-568-78-6160 Fax: 81-568-78-6188

Okayama Office

Tel: 81-86-277-6111 Fax: 81-86-276-6013

CORPORATE AND STOCK INFORMATION

As of March 31, 2007

Head Office
Shiokoji Horikawa, Shimogyo-ku,
Kyoto 600-8530, Japan
Phone: 81-75-344-7000
Fax: 81-75-344-7001

Tokyo Head Office
3-4-10, Toranomon, Minato-ku,
Tokyo 105-0001, Japan
Phone: 81-3-3436-7170
Fax: 81-3-3436-7180

Date of Establishment
May 10, 1933

Industrial Property Rights
Number of patents:
2,350 (Japan)
2,481 (Overseas)
Number of patents pending:
3,778 (Japan)
2,236 (Overseas)

Number of Employees (Consolidated)
32,456

Paid-in Capital
¥64,100 million

Common Stock
Authorized: 487,000,000 shares
Issued: 249,121,372 shares
Number of shareholders: 29,190

Stock Listings
Osaka Securities Exchange
Tokyo Stock Exchange
Nagoya Stock Exchange
Frankfurt Stock Exchange

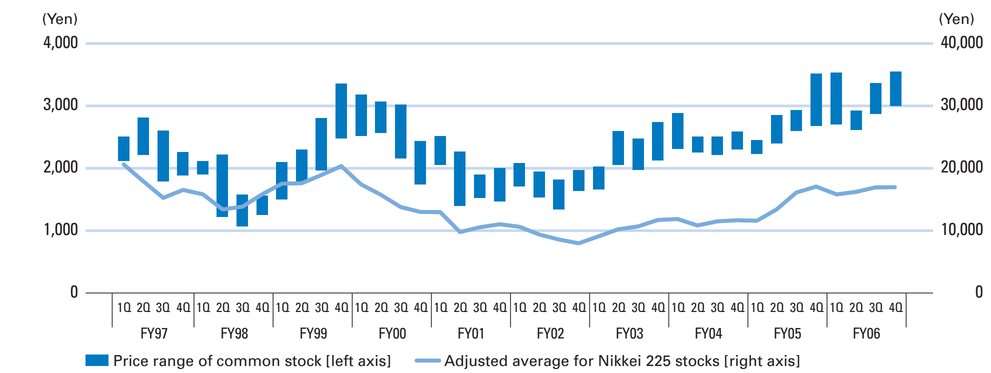
Ticker Symbol Number
6645

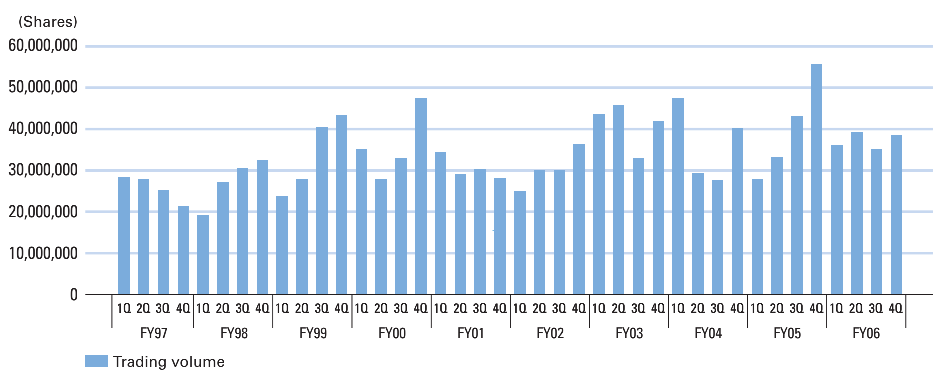
Custodian of Register of Shareholders
Mitsubishi UFJ Trust and Banking
Corporation
1-4-5, Marunouchi, Chiyoda-ku,
Tokyo 100-8212, Japan

Depositary and Transfer Agent for American Depositary Receipts
JPMorgan Chase Bank, N. A.
4 New York Plaza, New York,
NY 10004, U. S. A.
ADR Holder Contact:
JPMorgan Service Center
P. O. Box 3408
South Hackensack, NJ 07606-3408
TEL : 1-800-990-1135
FAX : 1-201-680-4604
General E-mail : adr@jpmorgan.com

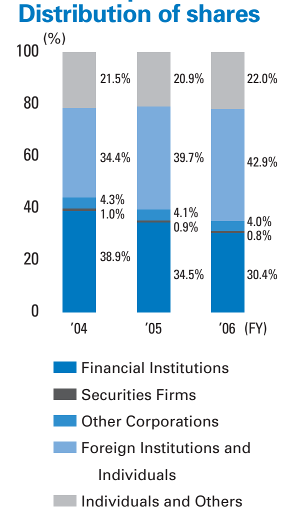
Homepage
http://www.omron.co.jp (Japanese)
http://www.omron.com (English)

Common Stock Price Range/ Trading Volume (Osaka Securities Exchange)





Ownership and Distribution of shares



Yearly High and Low Prices

	FY1997	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	**FY2006**
High	¥ 2,810	¥ 2,220	¥ 3,360	¥ 3,180	¥ 2,515	¥ 2,080	¥ 2,740	¥ 2,880	¥ 3,520	**¥ 3,570**
Low	1,790	1,070	1,501	1,745	1,395	1,341	1,658	2,220	2,230	**2,625**

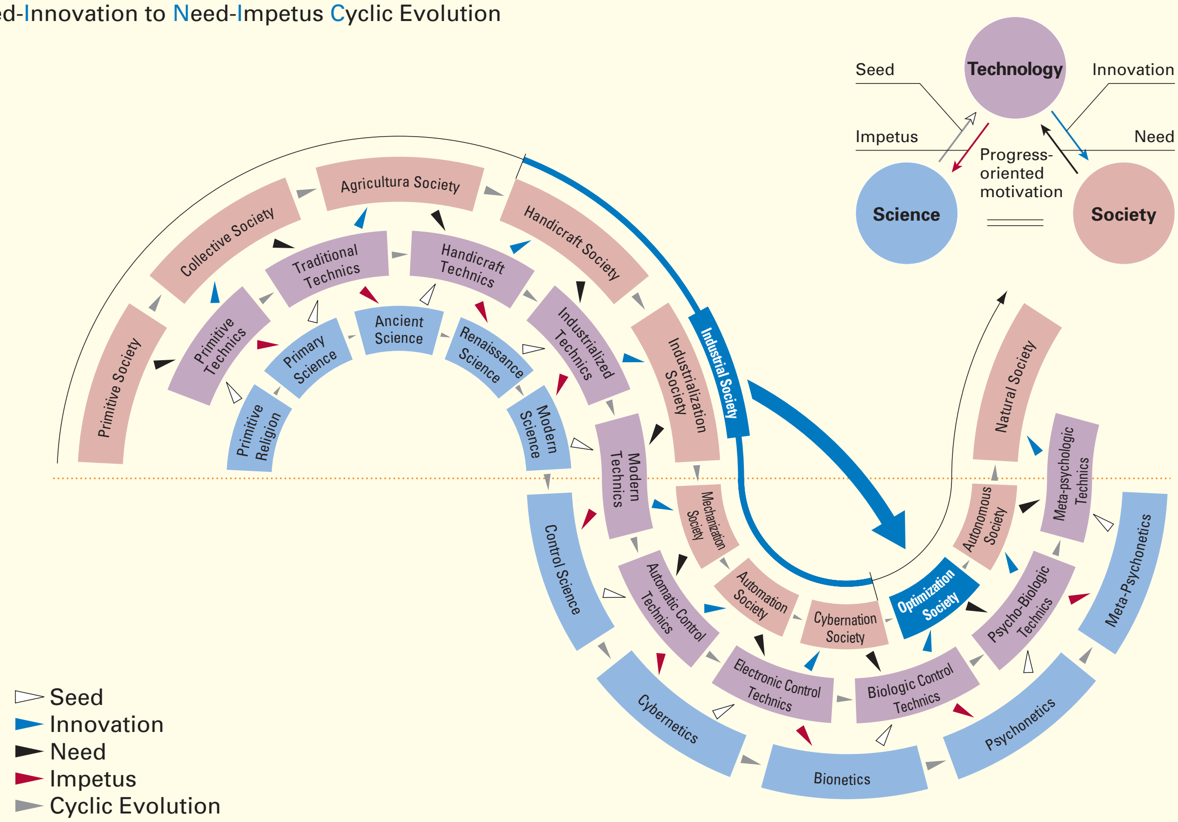
* Closing price of Osaka Securities Exchange

COMPASS DETERMINING THE DIRECTION OF OMRON'S MANAGEMENT— SINIC THEORY

According to Omron's SINIC theory, science, technology and society have a cyclical relationship, in which each area impacts and influences the others in two directions. In one direction, scientific breakthroughs yield new technologies that stimulate society to advance. In the other direction, the needs of society motivate technological developments and expectations for new scientific advancement. Both of these directions affect each other in a cyclical manner, encouraging society to evolve.

SINIC DIAGRAM

Seed-Innovation to Need-Impetus Cyclic Evolution



The future envisioned by Omron's founder

In 1970, Omron founder Kazuma Tateisi developed a unique future prediction method called "SINIC (Seed-Innovation to Need-Impetus Cyclic Evolution) Theory" and presented it at the International Future Research Conference. Since then, this theory has served as a compass determining the direction of Omron's management.

The SINIC Theory predicted that the traditional agricultural society would be followed by an industrialized society, which in turn would be broken down into five phases (handicraft society, industrialization society, mechanization society, automation society and information society). According to the SINIC Theory, a new society, called the "Optimization Society," should follow the information society, the final phase of the industrialized society, around 2005.

While our industrialized society has brought about great material wealth, it has also left many issues unsolved. Such issues include energy and resource depletion, growing industrial waste, food shortages and human rights concerns. In the Optimization Society we envision, these issues will be redressed and psychological fulfillment and quality of life will grow in importance as fundamental desires of human beings. At the same time, the pursuit of efficiency and material affluence emphasized by the industrialized society will become relatively less important. This will in turn create a complete balance and harmonious relationship between individuals and society, between humans and the environment, and between people and machines.

Omron in the Optimization Society

Omron has successfully anticipated and met the potential needs of society based on its SINIC Theory, and has contributed to society through its business operations by drawing on its proprietary Sensing & Control technology, and combining this with its sophisticated device technology. The most representative developments that correctly addressed the issues of each era include automation control devices as well as public information and traffic control systems. The Optimization Society began around 2005, and Omron is striving to create the "best matching of machines to people" to ensure greater safety, security and environmental conservation.

For machines that involve complicated procedures and require expert knowledge to operate, for example, our goal is to create machines that can adapt to the needs of each operator. Such machines will be able to choose functions tailored to each operator's needs or detect various conditions, make expert judgments, and provide the operator with appropriate information necessary to deal with the current situation. Other examples include an automotive sensor that can detect the surrounding conditions, anticipate a potential crash, and alert the driver or automatically activate the brakes to assure driving safety.

Instead of people trying to adapt themselves to the needs of machines, as they do today, machines capable of adapting to the needs of people are soon to be realized. Through the implementation of its corporate philosophy, Omron strives to continue its role as a pioneer in contributing to society in the soon-to-be-realized Optimization Society.

OMRON

OMRON Corporation
Shiokoji Horikawa, Shimogyo-ku, Kyoto 600-8530, Japan
Phone: 81-75-344-7000 Fax: 81-75-344-7001
Homepage: http://www.omron.co.jp (Japanese)
http://www.omron.com (English)

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